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Economic mobility behaviors due to earned income tax credit policy: a case study of a southern California population

Eugene J. Anton

Pepperdine University

Graduate School of Education and Psychology

ECONOMIC MOBILITY BEHAVIORS DUE TO EARNED INCOME TAX CREDIT POLICY:

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Eugene J. Anton

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Kent Rhodes, Ed.D. – Dissertation Chairperson

This dissertation, written by

Eugene J. Anton

under the guidance of a Faculty Committee and approved by its members, has been submitted to and accepted by the Graduate Faculty in partial fulfillment of the requirements for the degree of

DOCTOR OF EDUCATION

Doctoral Committee:

Kent Rhodes, Ed.D., Chairperson

Leo Mallette, Ed.D.

James Dellaneve, Ed.D.

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VITA

EUGENE J. ANTON

Education

Doctor of Education in Organizational Leadership, (2013)

Pepperdine University, Irvine, California

Human Resources Coaching and Mentoring for Leaders, (2002)

Managers and HR Executives Program

California State University Long Beach, California

Masters of Business Administration Degree, (1985)

Concentrations in Finance and International Business

St. Thomas University, Houston, Texas

Bachelor of Arts, Bachelor of Science Degree, (1981)

Major in Business Administration, Minor in Finance

Seton Hall University, South Orange, New Jersey

Real Estate Development and Investment Program (1981)

Houston University, Houston, Texas

Professional Experience

Managing Member and Founder, Grace Ventures, LLC (1993-2013)

Chief Executive & Chief Operation Officer and Co-Founder, Biocytogen, LLC (2008-2013)

Managing Partner, Capital Fund Partners, LLC (1985-1993)

Senior Analyst, Allied Corporation (1981-1985)

Teaching and Curriculum

Graduate Teaching Assistant, Pepperdine University, Organizational Leadership (2004 - 2005)

Leadership Long Beach Association, Principled Leadership	(1996 – 2003)
Youth Leadership Long Beach Program	(1997-2000)
California Association of Leadership Programs Convention, Chairman	(1997)
Interim Director, California State University Fullerton, Family Business Council	(1999-2001)
Trainer, Small Business Entrepreneurship	(1993-1998)
Trainer, Alcatel Innova, Corporate Entrepreneurship	(1992-1994)

Publications and Presentations

Scholar and Educator, the Journal of the Society of Educators and Scholars, XXVII

The SPELIT interdisciplinary analysis method (pp. 55-68). Case Study 3. Assessing the SAEC Daisy-Wheel Organization, edited by J. Schmieder-Ramirez and L. Mallette. (2006).

Comprehensive Exam, Guidelines for Organizational Development in the Public Sector. Department of Education and Psychology, Pepperdine University (2005).

Leading Education Program, Distance Education Program Design. Department of Education and Psychology, Pepperdine University (2004).

Ethical Leadership, Boeing "Ethics Challenge", Training, and Evaluation. Department of Education and Psychology, Pepperdine University (2004).

Conferences

Society of Educators and Scholars Conference, Providing Computers for Rural Education in Latin America: International Lessons Learned, Long Beach (2005).

ESRI Education User Conference, Designing Curriculum and Degree Program. The Importance of Incorporating GIS into Business Degree Instruction, San Diego (2005).

ESRI Education User Conference, Community Projects and Partnerships. A Case Study: Creating a Community Based GIS System, San Diego (2005).

Community Service

Board Member and Chair Open/Masters Committee, USATF Ozark Association (2008-2013)

Vice Chairman Board of Directors, Santa Ana Empowerment Corporation (2003-2010)

Long Beach Strategic Plan 2010 Task Force (1998-2000)

Chairman, Long Beach Economic Development Commission (1994-1998)

Mayor's Economic Advisory Committee, Long Beach (1994-1999)

Advisory Board Member, Small Business Development Center (SBA) (1995-1998)

Long Beach Naval Shipyard Reuse Task Force (1995-1997)

Participant, White House Conference on Small Business (1996)

Award

Best Overall Annual Report Award, Investor Relations Institute, Orange County, CA (2001)

ABSTRACT

The purpose of this study was to understand earned income tax credit (EITC) policy influences on the development of economic mobility for individuals receiving EITC. Policymakers have declared that improving the economic mobility of low-wage workers a major objective of the EITC. This study addressed identifying factors that contribute to economic mobility, and testing the punctuated equilibrium theory to determine whether exogenous forces influence EITC policymakers' decisions.

Utilizing the survey data of 2,252 EITC respondents from the Legal Aid Society of Orange County, California, the study found that saving, education, race, and being banked were factors contributing to economic mobility. Age was not a factor contributing to economic mobility. Results from testing the punctuated equilibrium theory indicated that at the .05 level there was not a significant association between exogenous forces and EITC policymaking decisions.

Chapter 1: Introduction

There are three principles of economic well-being in American society that appears to be generally accepted. The first is that economic opportunity should be as equally and widely distributed as possible (Garfinkle, 2008; Hochschild, 2001). The second is that each person's economic mobility should be tied to the contributions they make to the economy (Hughes, 2004; Sawhill & Morton, 2007). And third, citizens should be protected at least by some level of a social safety-net against the worst economic consequences, particularly those caused by events outside the person's control (Bernanke, 2007; Danziger & Danziger, 2005).

Chairman of the Board of Governors of the Federal Reserve System, Ben S. Bernanke (2007) stated that Americans "believe that no one should be allowed to slip too far down the economic ladder, especially for reasons beyond his or her control" (para.3). He also stated:

> A bedrock American principle is the idea that all individuals should have the opportunity to succeed on the basis of their own effort, skill, and ingenuity. Equality of economic opportunity appeals to our sense of fairness, certainly, but it also strengthens our economy. If each person is free to develop and apply his or her talents to the greatest extent possible, then both the individual and the economy benefit. (para.1)

When the principals of economic well-being are accepted, important questions remain, for example, the question of defining economic well-being. Some may restrict the definition to the elimination of discrimination, and others might broaden the idea to universal access to a guaranteed minimum income, education, housing, and health care. Another concern includes balancing the need for keeping strong market-based incentives while protecting individuals against the most adverse state of affairs (Bernanke, 2007). The answers depend on public social values and economic tradeoffs that are left to the political policymaking process.

Background

Economic well-being has been of vital interest to political leaders, albeit labeled poverty reduction (Anand & Sen, 2000). More specifically, political leaders are interested with improving individual's economic mobility as confirmed by the declaration that improving the economic mobility of low-wage workers is a major objective of the Earned Income Tax Credit (U.S. Office of Management and Budget [OMB], 2007). The Earned Income Tax Credit (EITC) is a political social policy instrument fashioned to tackle the social value concerns and economic tradeoffs inherent in addressing the economic well-being of the poor. The EITC specifically targets low-income wage earners while maintaining strong market-based incentives by requiring EITC recipients to work and file a state and federal tax return.

Research suggests that the EITC is an effective antipoverty program that promotes economic well-being (Hotz & Scholz, 2001; Ventry, 2001). The EITC was designed to counteract the burden of Medicare and Social Security payroll taxes for low-income workers (Brostek, 2001). From its enactment in 1975, the EITC has evolved into the primary U.S. antipoverty program with a Fiscal Year (FY) 2007 budget exceeding $49.7 billion (U.S. Government Printing Office [GPO], 2009a). Since the 1990s there has been a drop in federal welfare reform legislation, recipients of traditional welfare, Temporary Assistance for Needy Families (TANF) by more than 60% ─ from approximately 13 million to 5 million people. During the same time period, participation in the EITC program grew by approximately 30% (Dahl, 2005).

Research on economic well-being suggests that low-income households lack adequate resources to increase their economic mobility or to meet minimum spending needs (Garner & Short, 2005). EITC research corroborates economic well-being literature as EITC recipients pay out very little of their EITC receipts on improving their economic mobility (Beverly, Tescher, & Romich, 2004; Edwards, 2004; Hotz & Scholz, 2001; Smeeding, Phillips, & O'Connor, 2000). While EITC recipient's economic mobility indicators are low, there is evidence of positive economic mobility activities.

This study examined 2,252 EITC's recipients, predominately from Southern California, reported economic mobility activities. The data was gathered during a 2006 EITC survey by the Legal-Aid Society of Orange County (LASOC), a not-for-profit agency in Southern California that serves low-income individuals. Using the survey data, this study also examined EITC recipient's determinants of economic mobility. In addition, this study also examined EITC policymaking against three separate hypotheses incorporating the punctuated equilibrium theory.

Many public policies require political leadership to possess insight and foresight. Fishman (2001) emphasized that successful leaders of today are "able to create policies for the present that arise out of the context of the American past while preparing…for the future" (p. 108). The EITC requires such consideration. Political leaders should have a thorough understanding of policymaking, program assessment and performance, current economic conditions, and a history of the U.S. tax and social welfare systems that led to the enactment of the EITC. Also inherent in this understanding is the inclusion of the American ideal that all citizens should be allowed the opportunity to enjoy economic well-being (Biggs & Helms, 2007).

Relevance

Studying how the EITC program affects the economic mobility for EITC recipients and the EITC policymaking process is significant for several reasons. First, the sheer magnitude of the combined federal and state EITC program expenditures, estimated in excess of $50 billion in

FY2009 (Koulish & Levitis, 2008), merit examination. Second, there is significant public interest in social policy programs and specifically on how EITC recipients employ their credit (Kim & Berube, 2003; Pew Research Center, 2009). And third, few visages of public life are observed as closely and debated as intensely as policymaking leadership. Leadership is crucial to the welfare of nations, the survival of political institutions, and the functioning of businesses and government entities. Political leadership and policymaking is mutually a complicated and elusive quality (Jones, 2007).

The EITC was created as a refundable tax credit that supplements the earnings of low-income working people. In addition, the EITC is widely acclaimed for its positive effects on poverty, welfare, and work (Hotz & Scholz, 2001). In addition to the objective of increasing the economic mobility of low-wage workers, the EITC has two broad goals: "(a) To encourage families to move from welfare to work by making work pay; and (b) to reward work so parents who work full-time do not have to raise their children in poverty" (GPO, 2008a, p. 258).

The effects of the EITC are fundamentally difficult to measure. On a macroeconomic level there are significant delays between when the EITC refund is received by credit recipients and when the final results become available, if at all (Newcomer, 2007). In the absence of this data, it is often difficult to assess if the EITC has achieved its goals. Additionally, participants in the U.S. political system are often in disagreement regarding missions, goals and objectives for public programs, the use of public funds, and the criterion programs should be evaluated.

Numerous studies on the EITC that will be presented throughout this document have raised questions whether the EITC is succeeding in achieving its acknowledged goals and objectives. Research and opinions are mixed as to the EITC effectiveness in improving recipient's economic mobility. Some allege that the EITC has become a second tier of welfare that no longer is linked to refunding taxes paid by low-income workers (Hotz & Scholz, 2001). Others cite concerns about the EITC's hidden work disincentives, marriage penalties, supposed failure in its targeting of poor families, and the credit's considerable costs (U.S. Congress, Senate Committee on Government Affairs, 1995). In addition, there is little published research that assesses the EITC's program outcomes. The U.S. Department of the Treasury Internal Revenue Service (IRS) reports that there are no EITC program outcome assessments (OMB, 2009a).

Edwards (2004) examined the consumption effects of the EITC and found that recipients spent 70% of their credit amount almost equally on durable and non-durable goods. Romich and Weisner (2000) used qualitative data to examine how low-income families allocate their EITC refund. They found recipients are more likely to make big-ticket purchases. Most markedly, 68% of survey respondents did not have cash savings left after two months of receiving their credit; the other 32% of respondents reported saving for a down payment on a house and for emergencies. Smeeding et al. (2000) surveyed Chicago area taxpayers and found that most recipients used their EITC payment to make-ends-meet, and more than one-half had at least one economic mobility related use for the EITC.

Problem Statement

The EITC is a tax policy that provides a work incentive for low-income workers. Policymakers view the EITC program as an antipoverty tax policy with positive social policy effects on low-income families and the economy (Ventry, 2001). Research presents proof that the EITC has notably reduced the number of families living in poverty (U.S. Congressional Budget Office [CBO], 2000), increased the labor market supply (Neumark & Wascher, 2001), and provided families with economic and social mobility (Smeeding et al., 2000). Federal and state-level EITC refunds may increase a working family's income by 50% (Koulish & Levitis, 2008). The EITC has become the nation's largest antipoverty program with an annual budget exceeding $49.7 billion for FY2007 (GPO, 2009b).

American political leadership through legislative action allocates significant budgetary funds towards economic mobility each year. In 2006 alone, approximately $746 billion was expended on federal economic mobility policies of which $205 billion, or 27%, was directed via programs that benefited low-income workers. In spite of the magnitude of federal economic mobility expenditures, few if any, budget assessments are made to determine how well federal programs, individually or taken together, actually promote economic mobility (Carasso, Reynolds, & Steuerle, 2008).

The EITC, approximating 20% of the total federal economic mobility expenditures for low-income workers, plays a significant role in policy makers' economic mobility allocation targeted toward low-income workers. In 2007, approximately 23 million taxpayers benefited from the EITC (Strudler & Parisi, 2009). Approximately 80% of the claimants received EITC benefits via IRS tax refund checks in 2007, and the remainder of the credit directly reduced claimants' tax liability (U.S. Department of the Treasury, 2007). A problem addressed in this study is that inadequate information is identified about the impact of the EITC on the working poor who receive it (Romich & Wiesner, 2000).

Purpose of the Study

The purpose of this study is to understand EITC policy influences on the development of economic well-being, primarily those associated with enhance economic mobility. This study addressed two subjects of study: (a) identifying factors that contribute to economic mobility, and (b) determining whether outside forces influenced EITC policymakers' decisions.

Although EITC and economic mobility literature does not provide empirical evidence answering EITC economic mobility questions, the punctuated equilibrium theory proposed reasons for policymakers' decision-making process. The economic mobility effect of the EITC tax-transfer policy can be improved as more is learned about factors that contribute to the EITC policymaking process and EITC factors that contribute to economic mobility.

Research Questions

Literature on assets and the poor (Bird, Hagstrom, & Wild, 1999; Edin, 1998; Shapiro 1998; Sherraden, 1991; Smeeding, 2001) indicate that low-income workers are inclined to make sacrifices by delaying current consumption to advance their long-term economic mobility when appropriate incentives or opportunities are present. Several studies identify factors that contribute to the enhancement of economic mobility in low-income families (Haveman & Wolfe, 1998; Schneider & Tufano, 2005; Shapiro & Wolff, 2001; Spilerman, 2000). This current study considered factors that contribute to enhanced economic mobility as identified in the studies of low-income families.

Two studies directly influenced this research. First, Smeeding et al. (2000) used survey and tax return data to examine the use of EITC refunds to improve economic mobility. Smeeding et al's. economic mobility construct included all forms of debt repayment, all work-related expenses, savings, tuition payments, auto expenses, medical bills, home improvements, moving expenses, and sharing funds with family members. The present study used survey data to examine economic mobility of EITC recipients. In contrast to Smeeding et al., this study limited the economic mobility construct to include evidence of savings, debt repayment, tuition payments, medical bills, retirement savings, costs associated with owning a business and home, emergency needs, and automotive expenses.

The second study that directly influenced this research was by Jones, Baumgartner, and True (1999). Jones et al. analyzed U.S. congressional budget authority punctuations (significant shifts) throughout government against three rival hypotheses: changes in the robustness of the postwar economy evidenced by gross domestic product (GDP), partisan division evidenced by congressional and administrative party control, and public opinion as evidenced by the Stimson Mood Model. The current study used GDP, the Stimson Mood Model, and the National Taxpayers Union Congressional Scorecard (NTU Scorecard) in lieu of party control.

Jones, Baumgartner, and True (1999) provided empirical evidence that punctuations occur, not just in some government programs or subsystems, but throughout government. Jones et al. argue that punctuations in government are statistically significant, whereas the three rival hypotheses examining the economy, partisan division, and public opinion affecting punctuations are not. The result corresponds largely to the simplified expectation that government is acting in the best interests of the public.

This study of EITC congressional budget authority (annual expenditures) tested Jones et al's. (1999) hypothesis that punctuations do occur in policymaking against three plausible rival hypotheses. The EITC provides an excellent venue for testing this theory. Not only does the EITC have significant annual expenditures, it also has a 34-year historical record. If punctuations due occur and the three rival hypotheses are not statistically significant it can be inferred that government has performed in the best interests of the public.

This study will address the following five questions:

1. To what degree do EITC survey respondents report positive economic mobility uses for their EITC receipts? The Legal Aid Society of Orange County (LASOC)'s I-CAN! EITC 2006

survey data provides evidence of EITC recipients economic mobility uses and determinants of their positive economic mobility.

2. How are EITC survey respondent's positive reported uses related to their demographics: savings, age, race, being banked, and level of education? Figure 1 illustrates the survey respondent's five demographics studied. The economic mobility indicator in the center of Figure 1 is the dependent variable and the five demographics represented in the outer rings are the independent variables.

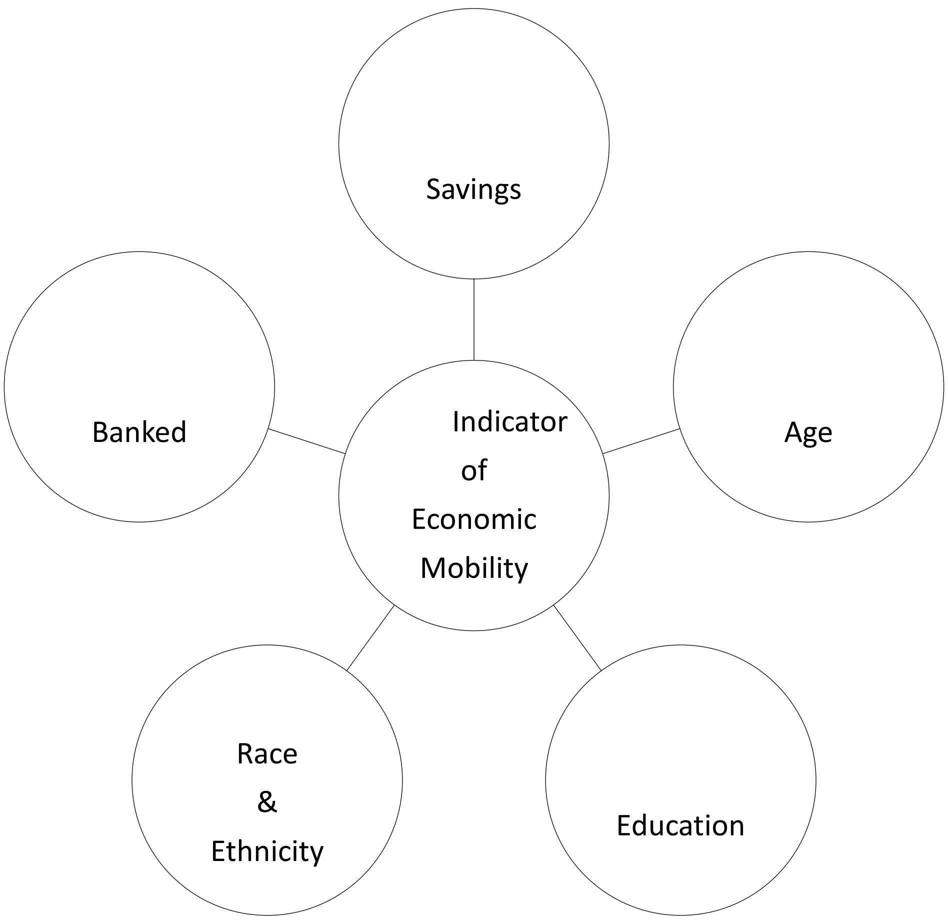

Figure 1. Five factors predicted to affect economic mobility.

3. What qualitative relationship exists, if any, between EITC annual expenditures and the economy?

4. What qualitative relationship exists, if any, between EITC annual expenditures and partisan political division?
5. What qualitative relationship exists, if any, between EITC annual expenditures and public policy opinion? Figure 2 illustrates the three rival hypotheses for research questions 3-5. The EITC annual expenditure indicator in the center of the Figure 2 is the dependent variable the three outer circles represent the independent variables.

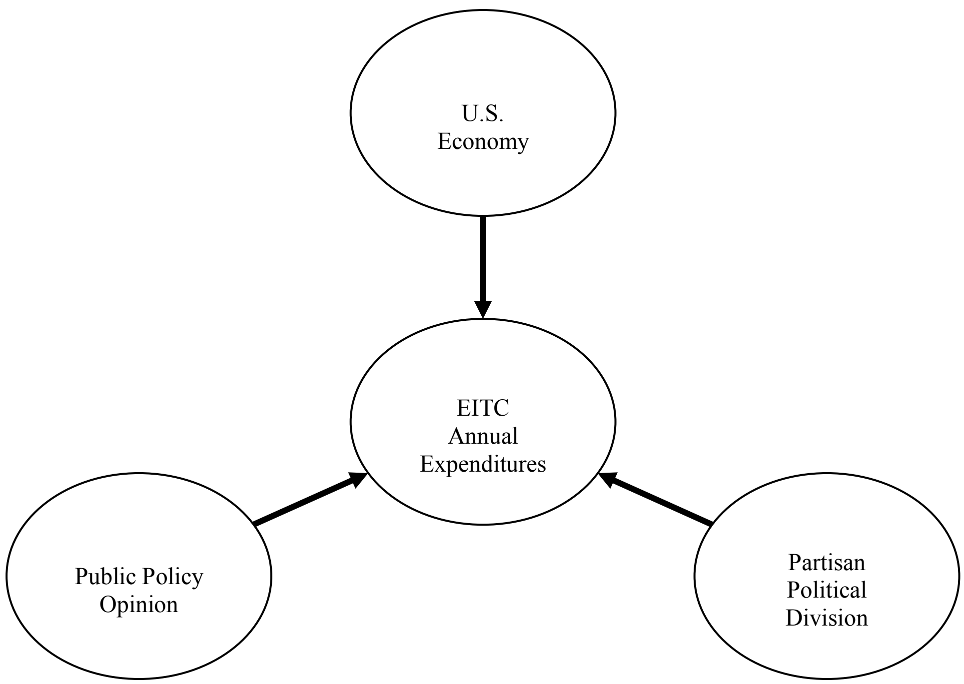

Figure 2. Three separate hypotheses for punctuations to EITC expenditures.

Significance of this Study

This study explores the effects of EITC policy on the economic mobility of low-income workers. The EITC is the largest federally funded means-tested antipoverty program in the United States and continues to increase in fiscal size. In addition, states and foreign countries are adding EITC to their social policy collection.

Understanding political leadership's motivation and the effectiveness of the federal EITC is important in determining if the EITC should keep receiving political support and government funding. The EITC fiscal impact should be met with an appropriate social and economic return on investment analysis. A continued debate exists on whether the EITC lifts the working poor out of poverty and affords low-income recipients' the ability for improved economic mobility (Ventry, 2001). While answering this question is not the ultimate intent of this study, it is important to understand whether the policy goals and objectives of the EITC are being met.

Most, if not all, previous research on the EITC has concentrated on labor supply, design differences of employment-based subsidies, family formation, and EITC non-compliance issues. There also have been numerous studies on welfare and poverty. A small portion of these have studied the aspects of the EITC and its effect on economic mobility of low-income workers including Ventry (2007), who states that tax credits are increasingly seen as a "social policy magic bullet" (p. 1261). Until recently, consumption behavior on how EITC families plan to spend or save their credit benefits has been limited. It would be beneficial for policy leadership to understand the economic mobility behavior of EITC recipients to formulate a complete picture in developing a comprehensive socio-economic plan and how best to utilize the EITC.

If the EITC is effective in meeting policymakers stated goals and objective, then the EITC should continue and possibly be expanded. Conversely, if the EITC does not meet its stated goals and objective, political leadership should discontinue or modify the EITC. Understanding how political leadership determines EITC policy and if the EITC is meeting its goals and objectives would provide insight into how policy actors might effectuate change.

Conceptual Approach

The conceptual structure for this study looks purposely at four main areas of literature: (a) the EITC program history, performance, results, assessment, and impact; (b) the EITC recipients' socio-economic indicators, economic and behavioral effects, and moving past "working poor" status via economic mobility; (c) behavioral theory providing a theoretical framework for analyzing political leaderships' policy formation processes of the EITC as a tax policy tool utilized in social welfare; and (d) to answer, how is the attention of policy makers allocated, issues framed, and what is the environment in which solutions and problems conducted? The four areas of literature provide the foundation for the research questions addressed in this study.

This empirical research study indentified factors associated with economic mobility for EITC recipients and whether exogenous factors affect EITC policymaker's decisions. There were two separate and distinct datasets that makeup the composition of this study. The first dataset was used to identify factors associated with economic mobility for EITC recipients. The data analyzed included survey data from a sample of 2,252 EITC recipients predominantly from the Southern California area. A sample frame of the population came from EITC recipients who utilized the web based free tax and EITC preparation services provided by the LASOC during 2006.

The second dataset of this study tested Jones et al.'s (1999) hypothesis that budgetary punctuations occur throughout government and that the punctuations are not driven by the economy, political partisan division, or public policy opinion. The significance of this was to examine the effects of outside influences on policymakers' decision making process toward EITC economic mobility policy. This study tested EITC annual expenditures against the effects of the economy, political partisan division, and public policy opinion. The dataset was used to qualitatively analyze the three propositions (economy, political partisan division, and public policy opinion) and test EITC policymaking against the punctuated equilibrium theory.

Study Limitations

Even if consensus is reached regarding the EITC's goals and evaluation criteria, it is difficult to separate the discrete influences that other social welfare programs, demographic changes, state and local governments, other support agencies, economic trends, etc., have on key outcomes. Outcomes may not be effectively evaluated due to lack of ability, government and researchers' attention and commitment, or resources (Newcomer, 2007).

The survey used in this study is taken from one sample heavily weighted from one specific geographic area. This sample does not represent a nationally representative sample and cannot be simplified as such. It is however a robust sample for tackling questions pertaining to the EITC and low-income workers consumption patterns. Also noted is that this study's sample consists mainly of low-income workers who voluntarily agreed to complete the survey immediately after filing for their EITC refund electronically. For some, the EITC refund process may be lengthy, tiresome and the medium technically unfamiliar, so responses may have been answered under stress. It is believed that the volunteer feature of the survey does not distort the sample. Demographically the study participants are similar to the common population of the targeted EITC population in that they are all low-income workers.

As the survey dataset depends on electronic responses, techniques such as home visits and informal interviews designed to place economic choices within the context of the recipients' point of view are not performed. Due to idiosyncrasies of individual respondents, questions may not be interpreted similarly and responses may not be given consistent thoroughness of thought.

Lack of access to follow-up data from EITC recipients negates how they actually used the EITC refund. The study is based on their perceived or planned use of the refund. Electronic survey instruments may not encourage honest responses on sensitive subjects such as personal finances. The study's goal in utilizing data from rigorous qualitative work with a limited number of southern California low income tax paying EITC recipients is to add to other types of analysis.

Chapter Summary

The concept of economic well-being, specifically improving economic mobility is an *American Ideal* which benefits the individual and the economy (Bernanke, 2007; Hughes, 2004). Political policymakers attempt to balance the reduction of welfare dependency and provide a social safety-net at the same time providing the opportunity for individuals to pursue the *American Ideal*. A significant public policy enacted in 1975 to address these concerns was the EITC.

Even though substantial resources are earmarked each year to improve the economic mobility of low-income workers, little is known of the effect the EITC has on the individuals who receive it (Romich & Wiesner, 2000). The purpose of this study is to examine the EITC policy influences on the development of economic mobility of low-income workers and if EITC policy is influenced by outside forces.

Organization of Remainder of Study

Chapter 2 will discuss the appropriate literature related to the problem just described. Chapter 3 will describe and discuss the research methodology selected to respond to the problem. Chapter 4 will present and analyze the data collected using the methodology described in Chapter 3. The study will conclude with Chapter 5 which is a summary of the conclusions drawn from the data presented in Chapter 4, and will conclude with implications and recommendations drawn from the data in this study and will present recommendations for future research.

Definition of Terms

American Ideal: The principles of the American dream are the belief that an individual can accomplish success and virtue through arduous effort ─ is the very soul of the American nation (Hochschild, 2001).

Budget Authority: "Budget authority is the authority provided by law to incur financial obligations that will result in outlays" (OMB, 2009b, Glossary).

Earned Income Tax Credit (EITC): A refundable tax credit that often eliminates federal income taxes and provides a tax refund for low-income workers.

Earned Income Tax Credit (EITC) Receipts: When the EITC exceeds the amount an individual owes in taxes, the recipients who claim and qualify for the credit, receive a tax refund.

Economic Mobility: The ability of an individual or family to improve their economic status, in relation to income and social status, within his or her lifetime or between generations. The ability to improve one's economic mobility is closely tied to the idea of the *American Ideal* and being able to advance your economic standing through hard work and effort (Sawhill & Morton, 2007).

Economic Well-being: Household or personal income is commonly considered as the single best measure of the degree to which people are *well off*. But other factors also contribute to people's well-being. Extended measures of well-being gauge how people are faring at the household level. Included are possessions of consumer durables, the building of assets, education, safety, housing and neighborhood conditions, cost of living, disability status, age, and the meeting of basic needs (U.S. Census Bureau, 2009).

Fiscal Policy: The government's plan for spending and taxation (Baumol & Blinder, 2006).

Fiscal Year: The fiscal year is the federal government's accounting period and begins on October 1st and ends on September 30th of each year (OMB, 2009c).

Gross Domestic Product (GDP): GDP of a country is a measure of the size of its economy. GDP is the "output of goods and services produced by labor and property located in the United States" (U.S. Department of Commerce, 2007, para.3).

National Taxpayers Union Congressional Scorecard (NTU Scorecard): The NTU Scorecard data originates from the 1979 – 2008 annual indexes of roll call votes compiled by the National Taxpayers Union, a non-profit research and advocacy organization located in Washington, D.C. The NTU Scorecard incorporates every vote that has an effect on federal spending, taxes, federal debt, or certain types of regulation. Each vote is assigned a weight based on the magnitude of its fiscal effect. A legislator's NTU scorecard in a given year is the weighted frequency with which they voted to reduce or not to increase, spending or taxes. The score's range is from 0 to 100, with the higher score indicating more fiscal restraint in voting (National Taxpayers Union [NTU], 2009).

Partisan Division: In reference to politics, a partisan is a committed member of a party who wholly supports their party's policies. In multi-party political systems the term partisan division relates to professional politicians who are expected to push for their party's interests in almost any situation (Maisel & Brewer, 2008).

Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996: Generally known as Welfare Reform, this public assistance legislation brought to an end traditional welfare through Aid to Families with Dependent Children (AFDC) and formed a new block grant program administered by states entitled the Temporary Assistance for

Needy Families (TANF). In place of an entitlement program, this act requires beneficiaries to work (or prepare for work) and limits benefits to 60 months (Blank, 2002).

Poverty Reduction: As there is universal agreement on poverty reduction as a prevailing goal, there is little agreement on the definition of poverty. For the purposes of this study the definition of poverty reduction is limited to any practice which seeks to decrease the level of poverty in a given community, or among a group of people.

Public Policy Mood: In general, public policy mood is inferred as a common response to government. "Mood liberalism taps willingness to expand the size and scope of federal activity in all policy domains. Mood conservatism taps a preference for a lesser federal role" (Manza, Cook, & Page, 2002, p. 38).

Punctuation Equilibrium Theory: This theory "seeks to explain a simple observation: political processes are typically characterized by stability and small adjustments, but occasionally they produce large-scale departures from the norm. The punctuated equilibrium model explains both the small incremental changes and the large-scale changes" (Jones et al., 1999, p. 62).

Refundable Tax Credit: A tax credit that provides a tax refund beyond any tax liabilities for individuals. Refundable tax credit payments results in a tax transfer payment. As an example, if an individual owed $700 in income taxes before refundable tax credits and received a $4,500 refundable tax credit, then the government would pay the tax payer $3,800.

Stimson's Mood Index: It is the combined measurement of mood incorporating nearly all available public opinion surveys related to government activity. Periods of high mood indicate a public at its most *liberal*, while low scores indicate a public at its most *conservative* (Stimson, 1999).

Social Safety-Net: A phrase used to describe an assortment of services provided by government or other organizations which stop individuals from descending into poverty beyond a certain point.

Welfare Reform: See Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

Chapter 2: Literature Review

A policy assessment of the Earned Income Tax Credit (EITC) is crucial in determining whether or not the EITC should continue to receive political leadership support and government funding. The EITC is the largest targeted U.S. tax credit program ($49.7 Billion, FY 2007) for low-income workers. Regardless of the EITC fiscal size, there is little known regarding the policy effect of the EITC on the individuals who receive the credit. In 1975, the EITC was enacted as a refundable tax credit intended to reduce or eliminate taxes low-income workers pay, specifically social security taxes, and often functions as a wage subsidy designed for low-income working people.

In general, since its enactment the EITC has continued to receive political bipartisan support (Ventry, 2001). This is in some measure because it has helped ease policy maker's concern over welfare dependency by providing a work-oriented alternative but also because of political leadership's policy alternatives that preceded it. The EITC has a strong political history with ardent supporters and detractors. When enacted, the EITC was both an anti-poverty and anti-welfare device. The general accord was that the EITC would be a valuable tool in the effort to reduce welfare caseloads, lower unemployment, and lift the working poor out of poverty (Ventry, 2001).

Four streams of research inform this study. First, a historical synthesis of American federal tax and social welfare policy provides the framework that led to the ratification of the EITC. Second, EITC literature provides insight into current research regarding the impact of the EITC on recipients' poverty and welfare reduction, consumption behavior, and economic mobility. Third, assessment literature provides a framework for program assessment and implementation analysis of the EITC. And lastly, behavioral theory literature provides an understanding of EITC policymaking agenda formation.

Prelude to the EITC

This section synthesizes U.S. tax and social policies that set the basis for the enactment of the EITC. While these policies were put into service before the passage of the EITC, they formed the central philosophy of the credit: to afford a social safety net, restrict families' tax burden based on ability to pay, that each able individual should be productive and work, and to afford the opportunity for every citizen to attain the *American Ideal*. This historical synthesis lays the groundwork for the context of the EITC.

Tax policy. According to Friedman (1962), in a free society, government's main objectives are to "protect individual freedoms and to maximize the well being of society" (p. 22). Musgrave and Musgrave (1999) see the role of government as having three primary tasks: "distribution, stabilization and allocation" (p. 8). In order to accomplish these objectives or tasks, a government raises revenue by way of taxes to pay its expenditures.

In the U.S., the federal government depends principally on income taxes, state governments on sales and income tax, and the majority of city and county governments utilize property taxes to raise revenues (Levy, 1995). Numerous goods and services are provided due to the free enterprise system. There are those goods and services that are more proficiently made available as government agencies oversee and manage them. Instances of the government supplying services more efficiently are the management of natural resources, social services, national defense, and mass transportation.

In a free enterprise economy businesses have little motivation to supply added benefits to society. It is consequently essential for government to impose taxes in order to supply certain societal benefits, impose regulations and uphold laws (Cordes, Ebel, & Gravelle, 2005). The federal government, since the 1930s has also provided some level of a *safety net* through income supports and services for the needy (Danziger & Danziger, 2005). Key programs provided by government include financial aid for the disabled and unemployed and health services for the elderly. Additional noteworthy programs provided by the government include Temporary Assistance to Needy Families (TANF), and social services for low income individuals and families. Society as a whole gains from these activities and the most sensible method to pay for these services are through taxes (Rimlinger, 1971).

For the most part, government revenues are generated by taxing three economic sources; wealth, consumption and income (Organization for Economic Cooperation and Development [OECD], 2004). As depicted in Figure 3, the main source of revenues for the federal government is income taxes. In 2008 the federal government collected 45% of its tax revenue from individual income taxes, 36% from payroll taxes, and 12% from corporate income taxes (CBO, 2009). The personal income tax produced about four times the revenue for the federal government as did corporate income tax. State governments tax income and consumption, whereas local governments depend almost exclusively on taxing property and wealth.

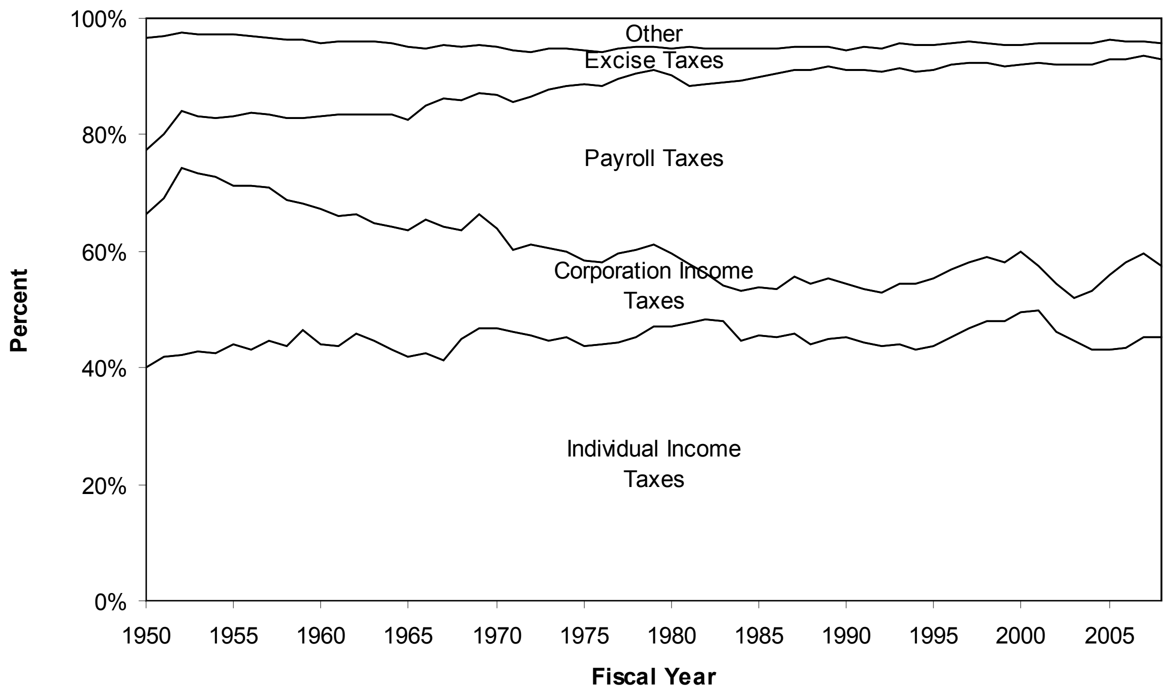

Figure 3. U.S. federal government sources of revenue for FY1950-FY2008. Data compiled from OMB (2009a), author's calculations.

Payroll taxes are a significant revenue source for the federal government (CBO, 2009). In addition to withholding Social Security and Medicare taxes, employers are responsible to withhold federal taxes and at times state taxes on behalf of their employees. In addition to these employee withholdings, employers are required by law to contribute an equal amount of Social Security and Medicare taxes on behalf of their employees and to pay a Federal and State unemployment tax.

Payroll taxes expanded subsequent to the formation of Medicare in 1965. The tax burden for Medicare joined with increases in Social Security taxes have resulted in payroll tax revenue to increase from 1.6% GDP in 1950 to an excess of 6% since 1990 for employer and employee (CBO, 2009). Today, a portion of low-income workers have a greater social security tax burden than their income tax obligation.

The most significant consumption taxes are sales and excise taxes. Whereas sales taxes are defined as state or locally imposed taxes on the selling or renting of certain property, goods or services based on a percentage of the total cost. Because the tax is collected from the consumer, it is a consumption tax. Federal and state governments employ excise taxes, on occasion called *luxury taxes*. Examples of items that have been subject to federal excise taxes are cigarettes, *gas guzzler* vehicles, heavy trucks and trailers, petroleum products, air transportation, and communication services (U.S. Department of Treasury [Treasury], 2012). Besides raising revenue, an objective of the use of excise taxation is to discourage a particular behavior.

Property taxes are the main source of revenue for local, municipal, or county governments. The majority of localities impose a tax on business property, land, and private homes. This tax is based upon an asset's assessed worth. A budget planning advantage of property taxes to the income tax is that property tax revenues are to a high degree predictable. Income or sales taxes vary and may possibly result in tax revenue shortfalls (Suits, 1977).

The makeup of local and state taxes varies from the makeup of federal taxes. Local and state taxes rely mostly on property and sales taxes. As property taxes are regressive they tend to fall disproportionately on those of lower incomes such as the elderly, those who are underemployed or who have lost their jobs. Figure 4 portrays the makeup of local and state taxes over the period 1962 through 2008. The two main trends show an apparent comparative drop in the significance of property taxes from past years and a step up in the significance of individual income taxes.

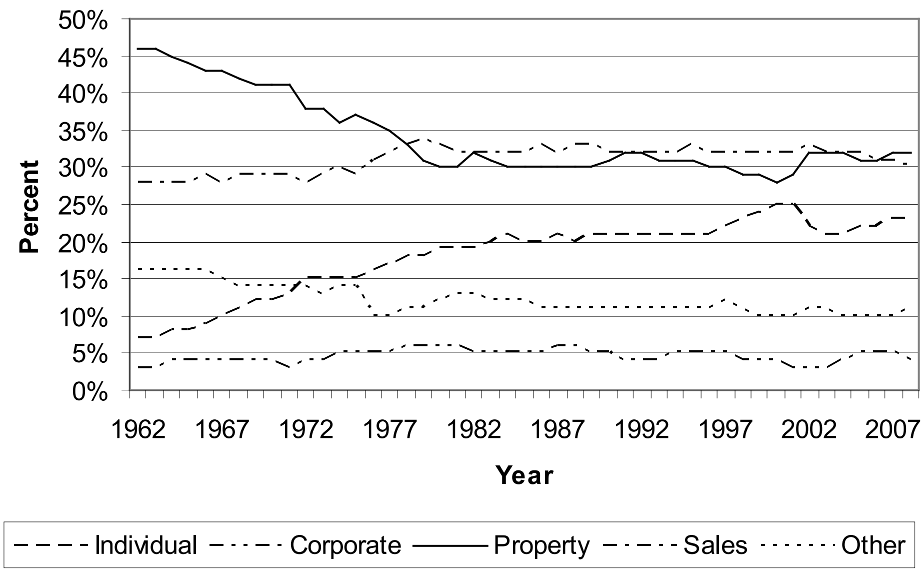

Figure 4. Sources of state and local tax revenue, FY1962-FY2008. Data compiled from the U.S. Census Bureau (2009), author's calculations.

The federal income tax. There are three major taxation structures; the progressive tax, the proportional tax and the regressive tax. The progressive tax requires taxpayers to pay higher marginal tax rates as their taxable income or wealth increases. The proportional tax requires taxpayers to pay fixed tax rates, regardless of taxable income or wealth. And the regressive tax requires taxpayers to pay higher marginal tax rates as taxable income or wealth decreases.

Throughout American history the concept of paying taxes according to the *ability to pay* has been a common theme. This is based on the notions that as individuals have greater income or other types of wealth they are in a better position to pay for taxation for government programs and services, and consequently, should pay higher taxes. The ability to pay is considered *fairness* (Kaplow, 1989). Fairness in the tax system matters because tax collection depends fundamentally on voluntary compliance (Egger, 1982).

If, as Oliver Wendell Holmes once said, "taxes are the price we pay for a civilized society, then the progressivism of taxes largely determines how that price varies among individuals" (Rosenberg, 1996, p. 178). In a progressive system taxpayer's unique circumstances are stressed. Taxpayers may not have the same ability to pay while having the same total income as another. Tax legislation was enacted so that those with large medical bills or mortgages and or other allowable expenses were able to deduct these amounts as *itemized deductions* thus lowering their taxable incomes. Also, taxpayers are allowed to deduct a specific amount for each allowable exemption on their tax returns. The reduction of taxable income through deductions and exemptions supports the fundamental principle of being taxed according to the capacity to pay.

As taxpayers reporting larger taxable incomes pay a larger percentage, the Federal income tax has historically been a progressive tax (Piketty & Saez, 2007). Alternatively, low income households below the poverty level ought to pay very little or no tax. If not, these low income families would be forced further below a minimal standard of living by paying such taxes. "In a real sense, families with poverty-level incomes do not have taxpaying ability. Taxpaying capacity exists only once income exceeds the poverty level" (Treasury, 1984, p. 13).

The federal government collects income taxes on a *pay-as-you-go* withholding system legalized through the Tax Payment Act of 1943. Important objectives of the Tax Payment Act were to enforce payment and collection of taxes, increase government revenue, and mute taxpayer opposition (Twight, 1995). The majority of employers are required to withhold employees' taxes from their paychecks and forward the withholdings to the General Fund of the Treasury for deposit. Businesses and self-employed taxpayers are required to pay their taxes in quarterly installments, since they must estimate the taxes owed they are known as estimated tax payments. The government reduces its expenses for borrowing funds through taxpayers' withholding or estimated taxes during the year.

To minimize costs, the Internal Revenue Service (IRS) counts on voluntary compliance of the law by all taxpayers. In 1982, the Commissioner of Internal Revenue, Roscoe L. Egger Jr., in congressional hearings testified that "approximately 80% of taxes owed are reported and paid voluntarily without any IRS enforcement effort at all" (p. 10). But in his hand written remarks he stated that "the mandatory withholding lies beneath this "voluntary" behavior, stating that this voluntary compliance results largely from a very workable system of tax administration rules based on withholding and information reporting" (pp. 10-11). For the 2001 tax year the IRS estimates that voluntary compliance was approximately 84% resulting in a gross tax gap (loss) of $345 billion (U.S. General Accounting Office [GAO], 2007). Without this intended compliance, the cost to the government to collect this revenue would be considerably higher than the revenue amount.

Federal receipts support many programs and the federal budget consists of two forms of spending, mandatory and discretionary. Mandatory spending, or direct spending, is provided for by law. The majority of mandatory spending programs are financed through permanent appropriations, while others are funded through annual appropriations acts. Expenditures allocated to mandatory programs are determined through benefit levels set up by laws instead of during the appropriations process. Among the largest mandatory spending programs are Social Security, Medicaid, and Medicare with the EITC listed as tenth. In comparison, the amount of discretionary spending is determined by the President and Congress through the 13 regular appropriations acts and additional appropriation measures through the annual appropriations process. The top four discretionary spending programs are related to the Department of Defense (DOD) followed by highways and subsidized Housing and Urban Development (HUD) housing

(CBO, 2009). A portion of the EITC is also under discretionary spending in addition to its mandatory budget spending classification.

Federal income tax influencers. The United States local, state, and federal tax systems have had significant modifications in reaction to shifting conditions and adjustments in the function of government. The form of taxes collected, their comparative magnitude, plus the level of tax revenues collected are significantly unlike 100 or even 50 years ago. The majority of the adjustments were tied to particular historical events, for instance a war or the ratification of the Constitution's 16th Amendment granting Congress the power to levy a tax on individual income. Most modifications to the tax system are more deliberate, reacting to the general public's changing norms, economic developments, and the increased responsibilities and functions of government.

Several scholars have acknowledged political and economic patterns linked with the legislation of taxation. Over time these patterns frequently change the body of government and change society's institutional foundation. "In the long run, such institutional changes tend to reshape predominant societal ideologies so as to validate existing government authority - in effect molding people's belief to conform to the new institutional status quo" (Twight, 1995, p. 366). For instance, Forsythe (1977) studied U.S. tax policy covering the period 1781 – 1833 and proposed that tax policy is formed by repeated political and economic patterns. "They included 'normal politics,' 'regime politics,' 'environmental crises' such as war and economic depressions, and 'authority crises' such as during the Civil War where the then current authority's ability to govern was challenged" (p. 122).

It was Forsythe's (1977) view that these patterns helped clarify why comparable policy programs over time may in fact create very different political outcomes. World War I and World

War II produced such emergencies requiring supplementary governmental revenues. Similar to President Wilson, President Roosevelt sought to increase revenues raising taxes on high-income households and corporations. Roosevelt stated "In this time of grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000" (Brownlee, 1996, p. 91).

Political strategies have been used to institutionalize income taxation and authenticate government policies and institutions that such taxation confirms. Such strategies are used to modify the public's perceptions regarding costs and benefits of government actions. Different types of taxation alter taxpayers' perception of their actual tax burden. These strategies may include the misrepresentation of facts about the character and consequence of government action (Jones, 1989). An illustration of the use of this tactic is the Tax Equity and Fiscal Responsibility Act of 1982, section 301, where Congress sanctioned a 10% withholding on taxpayer's interest and dividend earnings. The recognized purpose was for taxpayer compliance. The supposed emergency was the federal budget deficit while the justification emphasized the *fairness* of utilizing withholding to compel tax evaders to pay their tax instead of increasing taxes on law abiding citizens. President Reagan was in full support of this position (Twight, 1995).

Leff (1984), in his study of Roosevelt's New Deal tax legislation, demonstrated that the rhetoric and propaganda in support of tax policy often represented a symbolic purpose that conflicted with genuine tax policy. During WW I, the "Secretary of the Treasury clearly suggested use of 'widespread propaganda' to convince the public to do without their needless pleasures" (Treasury, 1918, p. 2). The Treasury Department employed a *campaign of education* utilizing news stories, editorials, cartoons, films, and the clergy. The commissioner of the Internal Revenue reported that "Thousands of clergymen, at the suggestion of the Bureau, made taxation the subject of at least one sermon" (Higgs 1987, pp. 133-34; Treasury, 1919, pp. 964-65).

Federal income tax history. Prior to the Revolutionary War, the colonial government had only a slight need for revenue, and the United Kingdom taxed its British subjects living in the colonies at a meager amount compared to their homeland counterparts (Burson, n.d.). It was not until the United Kingdom's imposition of a series of taxes on the American colonies to pay for its wars against France that colonial taxes started to become significant. In 1764 the United Kingdom enacted the Sugar Act, the first of several revenue measures enacted to ease the United Kingdom's war debts (Johnson, 1959).

In 1765, the first direct tax on the American colonies was the Stamp Act passed by the United Kingdom. The Stamp Act was later repealed in 1766 due to colonial pressure through boycotts of British goods (Morgan & Morgan, 1995). Even though colonists were taxed, they were not represented in United Kingdom's Parliament. "This led to the rallying cry of the American Revolution that 'taxation without representation is tyranny' and established a persistent wariness regarding taxation as part of the American culture" (West, 1922, p. 38).

Ratified in 1781, The Articles of Confederation mirrored the American alarm of a strong central government keeping the States with the majority of the political power. Few responsibilities were afforded the national government and there was no nationwide tax system. The national government had to request funds from states for its revenue (Sterne, 1888). The Articles of Confederation was replaced when the U.S. Constitution was adopted in 1789. At this time the Founding Fathers recognized that Congress had been given the responsibility for managing the needs of the confederacy but provided no means to do so by not having the power to directly collect taxes (Dougherty, 2001).

Through the adoption of the U.S. Constitution, the Federal government was given the power to raise taxes providing the Congress with the authority to "lay and collect taxes, duties, imposts, and excises, to pay the Debts and provide for the common Defense and general Welfare of the United States" (GPO, 2007, U.S. Constitution, Article 1, Section 8). This clause, called the General Welfare Clause or the Spending Clause, has generated much debate as to what *General Welfare* means. It did not give Congress the authority to pass legislation for the universal welfare of the country; that was a power kept for the states through the Tenth Amendment (GPO, 2007). Ever vigilant against the states' power being surpassed by the control of the central government, the collection of taxes was reserved for State governments (Sobel, 1997).

With minimal debate, the delegates to the U.S. Constitutional Convention "self-consciously approved a General Welfare clause that was sufficiently ambiguous to leave it to subsequent administrations to interpret the authority of the federal government in light of needs that they could not foresee" (Sky, 2003, p. 169). From the drafting of the Constitution, the meaning of the General Welfare clause has been the subject of intense disagreements (Sorenson, 1995). Even early in the Republic, social policies occasionally influenced the course of tax policy, but the nature of these policies did not expand either to the collection of taxes or to the redistribution of income and wealth (Sobel, 1997). Thomas Jefferson argued that additional taxation of the wealthy would disobey natural right:

> To take from one, because it is thought his own industry and that of his father has acquired too much, in order to spare to others who, or whose fathers, have not exercised equal industry and skill, is to violate arbitrarily the first principle of association, to

guarantee to everyone a free exercise of his industry and the fruits acquired by it. (Mayer, 1994, p. 79)

With the establishment of the new nation, American citizens had proper democratic representation and continued to resist and fight taxes they believed unjust or unreasonable. In early 1791, Congress employed its new constitutional authority to “lay and collect taxes, duties, Imposts and Excises” (Holcombe, 1992, p. 768) and approved an excise tax on distilled spirits, the original nationwide internal revenue tax, (Hoover, 2009). A group of farmers who distilled their surplus grain, from southwestern Pennsylvania, were angered by an excise tax on whiskey in 1791 and bodily attacked excise agents.

The tariff eliminated farmers’ profits from an important cash crop and became the *lightning rod* for other grievances against the federal government. Violence escalated forcing President Washington to send approximately 13,000 Federal troops to suppress the *Whiskey Rebellion*. “This was the first use of the Militia Law of 1792 setting a precedent for the use of the militia to execute the laws of the union…it was the first test of power of the new federal government” (Randolph, 1794, para.4). The Whiskey Rebellion also established that opposition to unjust or inequitable taxes that was fodder to the Declaration of Independence did not vanish with the establishment of a new, representative government (Hoover, 2009).

As tensions rose between France and the U.S. in 1798, the federal government instituted the first direct taxes on the owners of slaves, houses, and land to finance an American military buildup (Wallis, 2000). These taxes are referred to as direct taxes as they are paid directly to the government based on the value of the item taxed. The subject of direct taxes contrasting to the use of indirect taxes played a vital part in the development of Federal tax policy in the subsequent years. Because of the alarming threat of hostilities, “opposition to the tax, both in Congress and the public at large, remained muted” (Thorndike, 2008, para.1798).

In the early 1800s President Thomas Jefferson wanted to adjust the federal government’s fiscal policy and one of his main goals was to alleviate the tax burden. Jefferson was successful in abolishing “all internal taxes, including the whiskey excise tax and the land tax” (Thorndike, 2008, para.1800). To raise money for the War of 1812 against the United Kingdom, Congress forced further excise taxes, raised particular customs duties, and issued Treasury Notes. Following the crisis with the United Kingdom, Congress canceled these taxes in 1817, and for the following 44 years the Federal Government did not collect any internal revenue. In its place, the federal government counted on high customs duties and the sale of public land as its source of funding (National Archives, 2009, Records Group 58.3).

When the American Civil War erupted, the Revenue Act of 1861, the earliest federal income tax statute in American history was passed by Congress. This Act re-established previous excise taxes and forced a tax on personal incomes. The tax on personal income was a novel approach for a Federal tax structure which had been centered on excise taxes and customs duties. The opinion of Congressional leaders was that the income tax was an indirect tax, thus circumventing the constitutional restrictions of a direct tax under Article 1, Section 9. This Article mandated that the federal government allocate the tax burden among states on a basis of population as opposed to property values (Wallis, 2000).

In early 1862 it became apparent the Civil War was not going to end swiftly. It was also clear that the Federal government needed additional revenues as its debt was growing at a rate of $2 million per day. On July 1, 1862 President Lincoln signed the Internal Revenue Act imposing an income tax, inheritance tax, and included other license, excise and stamp taxes (Doris, 1994).

The new excise taxes included products ranging from ale to zinc (e.g., gunpowder, yachts, telegrams, feathers, pianos, leather, billiard tables, iron, drugs, playing cards, and whiskey, etc). Numerous legal documents were taxed almost all professions and trades were levied licensing fees.

The Revenue Act of 1862 fashioned the foundation of the modern internal revenue system and included a broad program of additional taxes to offset the rising war expenditures and created the Office of the Commissioner of the Internal Revenue (Doris, 1994). The Revenue Act of 1862 authorized the first federal income tax (Giroux, 2002; National Archives, 2009). The Tax Act also created significant reforms to the Federal income tax which later became vital characteristics of the present income tax. For instance, the law included two sweeping principles of progressive rates and withholding (Giroux, 2002). A two-tiered rate structure was enacted, applying a 3% tax on taxable incomes ranging from $600 and $10,000 and higher incomes were taxed at 5%. A $600 standard deduction was passed and an assortment of deductions was allowed for such items as losses, repairs, rental housing, and other taxes paid. Additionally, the law further provided for withholding of the tax from government salaries, both civilian and military, and from interest and dividends paid by railroads, banks, trust, and insurance companies.

Adam Smith’s principal of *ability to pay* was used to justify progressive tax rates incorporated in the 1862 law. Thaddeus Stevens, Chairman of the Ways and Means Committee in 1862, lauded the progressiveness of the tax system:

> While the rich and the thrifty will be obliged to contribute largely from the abundance of their means…no burdens have been imposed on the industrious laborer and

mechanic…The food of the poor is untaxed; and no one will be affected by the provisions of this bill whose living depends solely on his manual labor. (Thorndike, 2008, para.10)

The income tax continued in force until the Grant administration sponsored its repeal and it was abolished in 1872. The Federal government's requirement for revenue dropped sharply following the Civil war and nearly all taxes were repealed. By 1868, tobacco and liquor taxes were the main source of Government revenue. And "from 1868 to 1913, almost 90 percent of all revenue was collected from the remaining excises" (Treasury, 2007).

According to Joseph (2004), the income tax enacted in 1894 was designed to shift the "tax burden from the working poor to the wealthy" (p. 75). The Revenue Act of 1894 provided for a $4,000 personal exemption and a 2% *flat rate* tax that was not graduated (Doris, 1994). Less than 2% of the population paid these taxes the following year. Democrats of the time argued that the wealthy should be paying more and that tariff duties were distinctly regressive with the less affluent shouldering most of the tax burden (Joseph, 2004). The key issue in those debates was whether to shift from a consumption tax to an income tax. The 1894 Revenue Act was designed to redistribute the tax burden and restructure the revenue system but not to redistribute wealth or restructure society. As Joseph states, "it was an important triumph for progressive ideology" (p. 77). Joseph suggests that it was not only a result of the social forces reflected in the 1894 law and the later 16th Amendment, but the ensuing national emergencies that strengthened the American loyalty to progressive income taxation.

The 16th Amendment. In 1913, the modern federal income tax gained a solid foothold. This was not irrelevant as the 1894 federal income tax provision was voted down by a five-to-four Supreme Court decision in 1895 (Doris, 1994). In President Taft's 1909 written address to the U.S. Senate he presented the Constitution's 16th Amendment in order to secure adequate revenue to cover the quickly increasing deficit "by the imposition of a general income tax, in form and substance almost exactly the same character as, that which in the case of Pollock v. Farmer's" (Taft, 1909, p. 3344).

On February 25, 1913, Secretary of State Philander C. Knox, certified the 16th Amendment (Corwin, 1952). Subsequently, the 16th Amendment annulled the ruling in the *Pollock* case, creating the modern federal income tax and clearly confirming the federal government's authority to impose an income tax (Niskanen, 1992). In total, 36 of the 48 States ratified the 16th Amendment passing a new income tax law with liberal exemptions and deductions. At the time of ratification, less than 1% of the populace paid income tax with less than 500,000 individual tax returns filed for 1916. By 1917 there were in excess of 3.5 million tax returns filed (Treasury, 2007).

Preceding the enactment of the 16th Amendment, the majority of citizens were able to practice their economic dealings privately devoid of the direct knowledge of the government. People earned their wage, businesses generated their profits, and assets was built up and bestowed with modest or no dealings with government agencies. The income tax essentially altered this association, granting the government the need and the right to gather information on individuals and business' economic existence (U.S. Congress, Joint Committee on Taxation, 2000). The account of tax return privacy may be traced to the Civil War Revenue Act of 1862, "when tax return information was posted on court house doors and published in local newspapers to promote surveillance of one taxpayer by another" (Zaritsky, 1978, CAS-1).

Many believe the privacy of the individual tax return and the personal and financial information it contains to be critical to the strength of "our self-assessment system of tax collection" (Zaritsky, 1978, CAS-1). Congress acknowledged the income tax inherent intrusive nature into taxpayer's private dealings and so in 1916 through the enactment of the Revenue Act of 1916 afforded citizens a level of security by mandating that information contained in tax returns remain confidential (Bender, 1917).

World War I and the 1920s. Income tax policy was driven by the federal government's "escalating need for revenues upon the United States entry into World War I" (Ippolito, 2003, p. 103). Congress responded by passing President Wilson's tax program, the 1916 Revenue Act. The 1916 Act established an enlarged system of income taxation, raising the lowest tax rate from 1% to 2% and raised the top rate to 15% on taxpayers with incomes in excess of $2 million (Treasury, 2007). While the income tax was slightly 2 years old it had demonstrated itself a viable source of new federal revenue:

> The Revenue Act of 1916, broke the dominance of the tariff over the federal revenue system, transformed the experimental income tax into the primary instrument of federal taxation…and contributed to the nation's most dramatic departure toward progressive redistributional taxation. (Brownlee, 1985, p. 179)

For the first time the 1916 Act demonstrated that the progressive income tax could work on a grand scale. "The Revenue Act of 1916, which started out as emergency tax legislation, became potent tax reform, shaping the structure of taxes in a decisive way until World War II." (p. 206)

The New Deal. In the 1920s, Congress lowered taxes five times in response to a strong economy and growing income tax revenues thus returning the bottom tax rate to 1% and the top rate to 25% (Ippolito, 2003). The stock market crashed October of 1929, marking the start of the Great Depression. Government receipts fell as the economy contracted. Using the income tax to generate revenue and redistributing wealth was understood for the first time through the New

Deal (Witte, 1985). In order to generate required revenues, President Franklin D. Roosevelt's New Deal programs required an increase in taxes.

"The Revenue Act of 1935 introduced the Wealth Tax, a new progressive tax that took up to 75% of the highest incomes" (Treasury, 2008). Roosevelt's proposal provoked extraordinary opposition from Administrative leaders in both houses of Congress because it "stressed taxation or other than revenue purposes that is for the distribution of wealth…" (Blakey, & Blakey, 1935, p. 675). Roosevelt declared in his message to Congress on Tax Revision of June 19, 1935:

> …if a government is to be prudent its taxes must produce ample revenues without discouraging enterprise; and if it is to be just it must distribute the burden of taxes equitably…our revenue laws have operated in many ways to the unfair advantage of the few and they have done little to prevent an unjust concentration of wealth and economic power. (Roosevelt, 1935, para. 3)

The Revenue Act of 1935 popularly called the Wealth Tax Act went a long way toward rectifying the problems described by Roosevelt (Leff, 1984). It contained sharply graduated personal income taxes capping out at 75% on income that was in excess of $5 million. Affluent Americans criticized the leveling result of a graduated income tax and labeled President Roosevelt a "traitor to his own class" (Time Archive, 2003, para. 2). Right away, income tax evasion developed into a significant area of criminal activity (Leff, 1984).

The Social Security tax. The condition of the economy throughout the Great Depression led to the enactment of the Social Security Act in 1935. This original law contained the first national payments recognized as *unemployment compensation* to workers who lost their jobs. Other sections of the Act provided public aid to states for various health and welfare programs, the aged, handicapped, needy, and to certain minors (U.S. Social Security Administration [SSA], 2007d). A 1% tax was raised to finance these programs. Half of which was subtracted directly from an employee's paycheck and the other half was collected from employers on the employee's behalf. A gradual scheduled increase to 3% tax rate for 1938 and the years that followed was included in the Act. The tax was applied to the first $3,000 of the employee's salary or earnings (Social Security Administration [SSA], 2009).

Between November 1936 and June 30, 1937 approximately 30 million applications for Social Security Numbers were processed (U.S. Social Security Administration [SSA], 2007b). In 1940 approximately 220,000 people received Social Security with monthly benefits totaling approximately $4 million and in 2003 more than 47 million people received monthly benefits of approximately $39.5 billion (SSA, 2007c).

World War II. Most Americans were not directly affected by the income tax until World War II, as was the case in 1918 only 5% of Americans paid federal income taxes in 1939 (Treasury, 2007). But the Revenue act of 1942 lowered exemptions, raised tax rates, and established a Victory Tax of 5% on incomes over $624, expanding the income tax base significantly. The number of taxpayers in 1939 was 4 million expanding to 43 million in 1945. There was an increase in Federal receipts from $8.7 billion in 1941 to $45.2 billion in 1945. Even with a robust war time economy the federal tax as a share of GDP grew from 7.6% in 1941 to 20.4% in 1945. By the end of the war in 1945, almost “90 percent of American workers submitted income tax forms” (Treasury, 2007, p.78). President Roosevelt hailed the Act as “the greatest tax bill in American history” (Treasury, 2008, para. 1942).

The new payroll withholding tax, although not a new concept, was a significant adjustment for most Americans. The *pay-as-you-go* tax plan was created through the Tax Payment Act of 1943. Historically, the acceptance of the withholding arrangement by American taxpayers “revolutionized the income tax” (Jones, 1996, p. 130). It created a more “responsive and flexible income tax, and facilitated the conversion of the income tax into a powerful fiscal policymaking tool” (Ventry, 2001, para. 32). In addition, it helped American’s become used to regular deductions from their paychecks creating a taxpaying culture (Brownlee, 2003).

In short, the introduction of withholding “ensured the status of the income tax as a major and massive revenue source” (Jones, 1996, p. 130). The income tax had become the major supply of federal revenue. Without it, the social reforms of the 1930’s, the financial obligation of both World Wars I and II, and the programs and agenda of the *Great Society* of the 1960s would have been unfeasible (National Archives, 2008, para. JC.059).

Developments after World War II. From the end of World War II until 1980 somewhat insignificant changes were made to the tax system. Social Security coverage was extended to self-employed individuals, and the Social Security tax rate had increased from 1% to 6.13% for employers and employees (Levy, 1980). During the 1950s tax policy was viewed as an effective tool for managing the economy, managing incentives in the economy, and for stabilizing macroeconomic activity. The economy had repeated cyclical swings and policymakers acknowledged the new countercyclical fiscal policies of lowering or raising taxes and expenditures to regulate aggregate demand and thus flatten economic cycles. The function of the tax system had shifted from improvements in well-being to growth or macroeconomic purposes (Cordes, et al., 2005).

In 1961, Congress passed Internal Revenue Code Amendments requiring every taxpayer to use their Social Security number as a way of tax form identification (SSA, 2007a). In the early 1960s President Kennedy proposed tax reductions while suggesting broadening the tax base to include additional sources of income (Kennedy, 1961b). The macroeconomic goal at the time was associated with the economic theory that additional money circulating in the economy would spur demand (Steuerle, 2004).

The economy was of great concern to the Ford Administration as inflation almost doubled from the prior year to 11% in 1974 (Federal Reserve Bank of Minneapolis, 2008). In 1975 President Ford proposed and a Democratic Congress passed a $23 billion tax cut to stimulate the economy. A minor provision in the Tax Reduction Act of 1975 was a refundable end-of-year tax credit (EITC) of up to $400 for low-income workers. Ford stated that his main concerns were jobs and helping those who wanted to get back to working in productive jobs. He stated that "[t]his can best be done by temporary tax incentives to charge up our free enterprise system—not by government handouts and make-work programs that go on forever" (Ford, 1975, para. 3). The EITC was intended as a one year only tax credit to help stimulate the economy.

In December of 1975 Ford signed Public Law 94-164, coupling a tax cut with Congress's commitment to curtail the growth of Federal spending which also extended the EITC through the 1976 tax year. This was followed by the Tax Reform Act of 1976 on October 4, 1976, extending the EITC through the tax year 1977 (U.S. Congress Senate, 1976). During its first three years the EITC averaged approximately $2.2 billion per year. Over 70% of the EITC was forwarded as a refund check and 30% offset taxpayer's tax liability. This ratio remained constant until the early 1990s when the refund amount increased consistently to 80% in 1995. This amount increased again in 1998 to 84%, 87% in 1999, and has remained at 88% since 2002 (Treasury, 2005).

President Carter proposed to reform welfare with zero additional costs (Hargrove, 1988). As part of President Carter's welfare reform effort the EITC was an important component. In May, 1977 the EITC was extended to 1978 by Public Law 95-30. Then in the Revenue Act of 1978, Congress increased the EITC another 25% raising the maximum credit to $500, an advance payment option was added, and the EITC was made a permanent fixture of the IRS Tax Code (Swenson, 2002). For the next 6 years only minimal changes were made to the EITC.

The Reagan tax cut. President Reagan's Economic Recovery Tax Act (ERTA) of 1981 symbolized a bi-partisan fundamental change in the direction of federal income tax policy (Weiss, 1996). The heart of the ERTA was an adaptation of the Kemp-Roth bill advocated for many years by then Congressman Jack Kemp (R-NY) and then Senator Bill Roth (R- DE). ERTA was a bill to amend the Internal Revenue Code of 1954 to promote economic expansion via decreases in individual tax rates. ERTA provided a 25% comprehensive decrease in individual tax brackets to be phased in over three years. After the phase in period the ERTA would be indexed for inflation (U.S. Congress, 1996). The ERTA "enacted the largest tax cut in American History and inspired tax cutting by many other nations in the 1980s" (Roach, 2007, para. 20).

The 1981 tax cut represented a more traditional, economic perspective of tax policy. The fundamental thought was that marginal tax rates "discourage investment, savings, and work effort, while promoting tax avoidance and evasion" (U.S. Congress, 1996, para. 4). In review of the marginal tax rate, the important aspect is that the tax rate charged on the last dollar earned is more essential to economic activity than the tax rate charged on the first dollar earned or than the overall average tax rate. A reduction in marginal tax rates was thought to "boost long term economic growth, and reduce the attractiveness of tax shelters and other forms of tax avoidance" (para. 4).

The 1981 tax cut indicated two changes from prior tax policy beliefs. The first was a renewed interest on marginal tax rates and other incentives as the key aspects affecting economic activity. The second was the move away from income taxation to the taxation of consumption

(Treasury, 2007). Even with ERTA tax cuts, the federal budget deficit continued to increase and in 1982 the largest peacetime tax expansion was authorized (Bartlett, 2003). The 1982 Act closed and repealed several corporate tax loopholes in the tax code. In 1983, Social Security reforms were passed increasing Social Security tax rates and introduced the taxation of specific Social Security benefits. Reagan continued to push for further tax changes, "leading to the Tax Reform Act of 1986, considered to be the most comprehensive revision of the tax code since the 1950s" (Roach, 2007, para. 12). During Reagan's presidency, social insurance taxes increased by 38%. "As individual and corporate taxes are progressive and social insurance taxes are regressive, the outcome was a decrease in the progressivity and an increase in the regressivity of the federal tax system" (para. 22).

The progression of Social Security and Medicare. According to the U.S. Social Security Administration [SSA] (2007e), Social Security remained fairly unchanged until 1956 when monthly benefits such as Disability Insurance benefits were added. In 1958, amendments were added extending benefits to dependents of disabled workers. Disability benefits were extended in 1967 to disabled widows and widowers over the age of 50. Amendments in 1972 provided for automatic cost-of-living benefits. Congress in 1965 passed the Medicare program, which regardless of income provided for the medical needs of persons aged 65 or older. The Social Security Amendments in 1965 also formed the Medicaid programs providing medical support for individuals with minimal incomes and resources.

As Social Security expanded and Medicare and Medicaid were created, this necessitated the need for additional tax revenues and the payroll tax repeatedly being increased. The years 1949 through 1962 saw the payroll tax rate rise steadily from its initial rate of 1% to 3.12% for both employer and employee. Another expansion in 1965 saw further rate increases, with the combined payroll tax rate rising to over 12% in 1980 (SSA, 2009). Therefore, over 31 years the maximum Social Security tax burden increased from $60 in 1949 to $3,175 in 1980 with a disproportionate level falling on lower-income workers.

In spite of the larger payroll tax burden, the social benefit increases Congress passed in prior years led the "Social Security program to an acute funding crisis in the early 1980s" (Duignan & Rabushka, 1980, p. 181). Eventually, Congress passed laws changing Social Security benefits, along with increasing the combined payroll tax rate to 15.3% by 1990. The Social Security payroll tax burden more than doubled between 1980 and 1990 to $7,849 (SSA, 2009).

1980s and 1990s tax reform. A new tax policy philosophy started and stated that the income tax would be improved considerably through the repeal of many select provisions and reducing tax rates more. Consequently, in President Reagan's 1984 State of the Union speech he called for a comprehensive reform of the income tax. This reform would have a broader base, lower tax rates, fairer, simpler, and more consistent with economic efficiency (Reagan, 1984). In response to this reform, the Deficit Reduction Act of 1984 increased the EITC's benefits to 10% of filing taxpayer's earnings up to a maximum payment of $500. The credit was phased out completely for families with income above $10,000 regardless of number of children (CBO, 1998).

The 1986 tax act signified an interim reversal in the development of the tax system (Auerback, & Slemrod, 1997). The Federal tax system, although labeled an income tax, had for several years in fact been a hybrid income and consumption tax. In years just before 1986 the balance continued to shift both toward and away from a consumption tax with a majority of the tax acts. The 1986 tax act transferred the balance once again in the direction of the income tax

(Auerback & Slemrod, 1997). In order to offset the additional tax burden on low-income taxpayers, the EITC was increased to 14% with a maximum benefit of $851. An example of the increase in the federal tax burden was that “between 1986 and 1990 the Federal tax burden rose as a share of GDP from 17.5 to 18 percent” (Treasury, 2003, Reform Act of 1986). Higher amounts of government expenditures caused continued demands to increase taxes. In 1990 Congress passed a major tax increase in the top tax rate to 31%. The EITC was also increased to $953, with partial benefits for incomes up to $20,264.

The Taxpayer Relief Act of 1997 (TRA-97) provided a modest tax cut. It was policymaker’s position that taxes were not the cause of low-income workers inert income growth but the “anemic growth in before-tax income” (CBO, 2000, Chapter V). The focus of the 1997 Act was a major new tax benefit to specific families that have children implemented via a child tax credit. The important aspect of this tax relief was that for many lower-income families the credit was refundable providing “tax relief as a direct way to increase their income” (Chapter V).

Families, in many cases paid a *negative* income tax, or received a credit for more than their tax liability before the credit. Even while tax regulations had provided individual tax credits such as the EITC enacted in 1975, the Per Child Tax Credit started a new movement in federal tax policy. Formerly, tax relief was typically provided through lower tax rates or increased exemptions and deductions. The 1997 Act strengthened the individual tax credits, particularly refundable credits which are actually expenditure programs carried out through the tax system.

Together, personal exemptions, the standard deduction, the EITC and Per Child Credit set up an income amount that a family could earn and not be required to pay federal income tax. That amount, known as the tax threshold, fluctuates by size and type of family. For example, without TRA-97, a married couple with three children in 1999 could earn $26,575 before any federal income tax was due (see Table 1). The Per Child Credit raised the 1999 tax threshold for families that had qualifying children by almost $4,377 to $30,952.

Table 1

Taxpayer Relief Act of 1997 Tax Threshold

		Married Couple Filing Jointly ($)					Head of Household	
	Single Filer	No Children	One Child	Two Children	Three Children	Four Children	One Child	Two Children
Poverty Level								
Income	8,667	11,156	13,410	16,895	19,822	22,261	11,483	13,423
Income Tax Threshold								
Before TRA-97	8,114	12,700	21,375	25,430	26,575	27,718	19,627	23,932
After TRA-97	8,114	12,700	22,980	28,200	30,952	37,036	21,240	26,707
Income Tax at the Poverty Level								
Before TRA-97	125	0	-2,160	-2,882	-2,253	-1,752	-2,312	-3,613
After TRA-97	125	0	-2,160	-2,882	-2,253	-1,752	-2,312	-3,613
Payroll Tax at the Poverty Level								
Before TRA-97	663	853	1,026	1,292	1,521	1,703	878	1,027
After TRA-97	663	853	1,026	1,292	1,521	1,703	878	1,027
Combined Tax at the Poverty Level								
Before TRA-97	788	853	-1134	-1590	-732	-49	-1434	-2586
After TRA-97	788	853	-1134	-1590	-732	-49	-1434	-2586

Note: CBO (2000). Economic Analysis of the Taxpayer Relief Act of 1997.

Summary data of U.S. tax history. Historical evidence shows tax collections have increased over time. During the 20th century, Federal tax revenues have increased significantly even after adjusting for inflation. A sizeable increase took place during World War II, with relatively steady growth after 1950. Sporadic reductions in federal tax revenues were the result of recessions or major tax code modifications. The increase of local and state tax collections, by contrast, has been more consistent with less fluctuation. The main reason for this is that local and state tax revenues are derived principally from sales and property taxes. Sales and property taxes vary less than corporate and personal income taxes during fluctuations in economic and business cycles.

A way to illustrate the increase of federal taxation is to evaluate it to national economic output. As noted in Figure 5 federal tax collections are plotted as a share of GDP. Over the 20th century, federal tax revenues have usually increased as a percentage of GDP. Again, a sizeable increase took place during World War II, while additional increases are evident following the war as well.

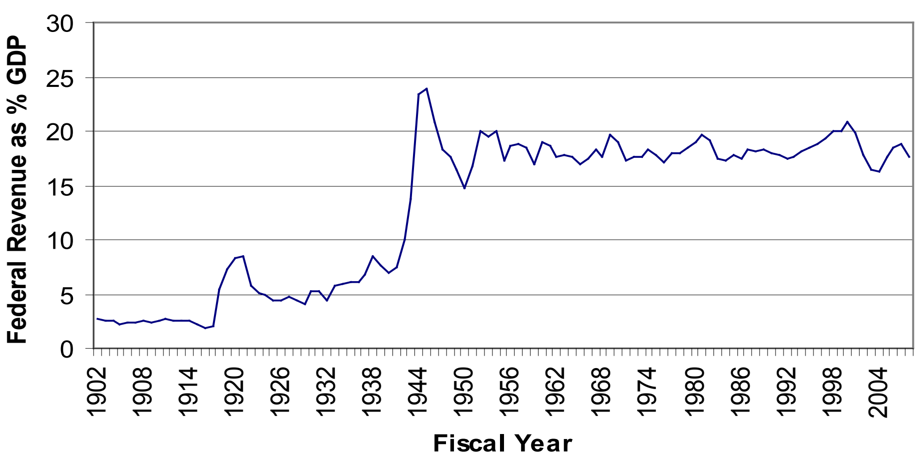

Figure 5. Federal tax revenue growth as percent of GDP FY1902-FY2008.

Author’s calculations from U.S. Office of Management and Budget [OMB] (2009c) data.

As noted in Figure 6 federal revenues increased while the composition of the total tax changed a great deal. Early in the century federal taxation was predominately by excise taxes.

Apart from for a renewal of excise taxes during the Depression Era, the significance of excise taxes has lessened over time. For the period 1918-1932, corporate taxes turned into the most important source of federal revenues. After World War II, and a higher corporate tax rate, corporate taxes have normally lessened in importance relative to other types of federal taxation. Since 1944, personal income taxes developed into the principal source of federal revenues and have continued to be. After World War II, individual income taxes have constantly provided between 40% - 50% of federal tax revenues. From approximately 1950, social insurance taxes have accounted for a larger share of federal revenues from nearly 10% up to about 40%. If historical trends continue, social insurance taxes may very well overtake personal income taxes as the most important source of federal revenues.

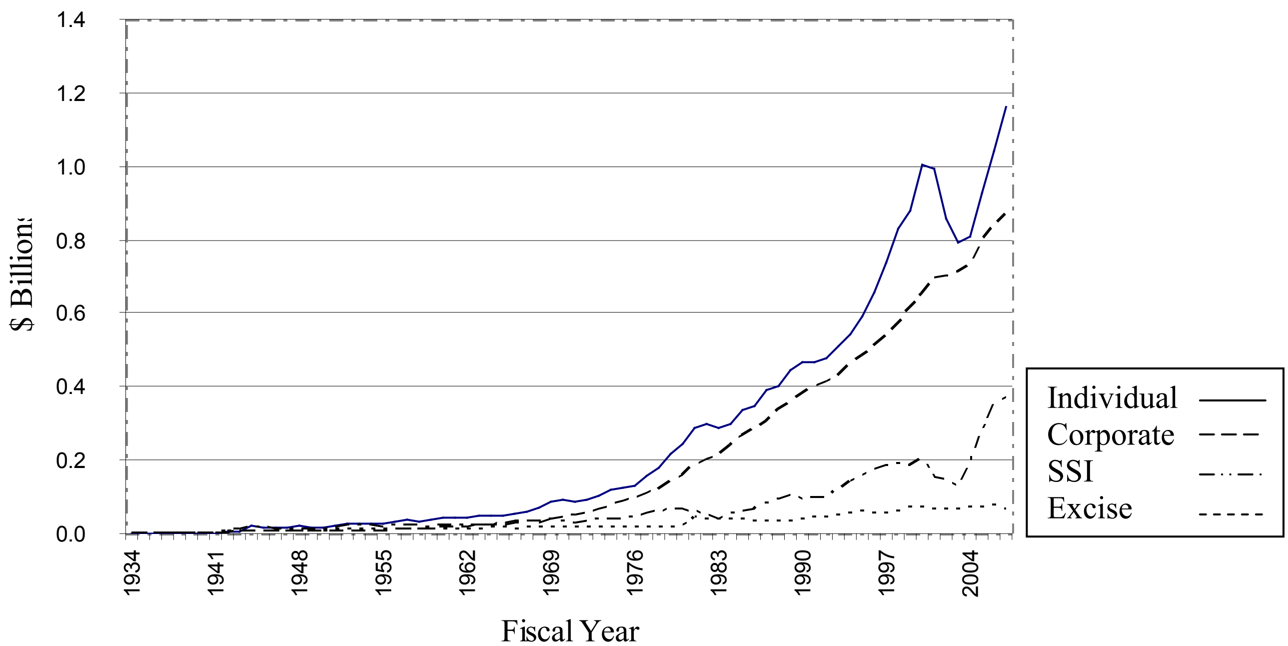

Figure 6. Summary of federal revenue by source: Fiscal years 1934-2007. OMB (2009c) Budget of the US Government FY 2009, Historical Tables, Table 2.1

Social policy. Trattner (1999) explains America's social welfare system originates from England’s laws and traditions particularly England’s 1601 Poor Laws. The poor laws originated from the medieval system of charity, and that charity was primarily located in monasteries and manors (Rushton, 1989).The primary characteristics of the poor laws incorporated local administration through the parish while chosen parishioners were designated as *overseers of the poor*. These parishioners had the duty for finding the poor work, by having them taking care of uncared for children and giving aid to the disabled and aged, and at times auctioning care of the poor to the lowest bidder in exchange for their indentured service (MacKinnan, 1987).

The low bidder received either pay or the use of the poor's labor in trade for care of an indigent person in their home. The low bidder had modest financial motivation to give quality care (MacKinnan, 1987). This decentralized system was labeled *outdoor relief* because assistance was provided outside an institution. The emphasis on care for the disabled and aged reinforced the division between *deserving* and *undeserving* poor. Local control of social welfare also meant overseers were provided extensive authority to impose taxes on parish residents (Trattner, 1999).

There is strong evidence that the early American social welfare philosophy was shaped from religious Puritanical beliefs and that present day American value systems are rooted in the New England colonial experience. Dr. Harry S. Stout, Jonathan Edwards Professor of American Christianity at Yale University, stated that "Puritanism shaped American society to an extraordinary degree" (2001, p. 34). Even today approximately one fourth of all Americans are descendants from early English-American colonists (McGill & Pearce, 1996).

Puritans believed that "God's divine providence selected, elected, and predestined certain people to restore humanity and reconcile it with its Creator" (Berlet, 2006, para. 4). And that success and wealth were signs of God's favor as was being poor, weak, or infirmed a sign of

God’s punishment. As God's creation, the world exhibited this order of things and the existence of a permanent underclass accommodated this world view (Atkins, n.d.).

Accepting predestination, Puritans considered poverty as illuminating a fault in a poor person's nature, an indication that they were not in favor with god (Bremer & Webster, 2006). Although acts of charity were an essential part of religious practice, such charitable acts were not expected or intended to improve the economic condition of the underclass. The intent of charity was to provide comfort to those less fortunate and providing charity was a sign of the level of kindness of the giver. The uniqueness of this history is important as the spirit of Puritanism has survived in many of the American public welfare policies of today.

Early reforms. Colonial America’s social welfare practices originated mainly from English custom. Selected administrators of the poor in every community arranged provisions for the needy. Outdoor relief was criticized because of alleged abuses by disinterested administrators and for providing service in homes as opposed to encouraging the poor to go out and make something of themselves (Williamson, 1984). At the turn of the 19th century reformers began to stress the environmental influences that created social ills, such as alcoholism and poverty. Institutions were constructed to offer *corrected* and *safe* environments. Mental institutions, homes for the disabled, even prisons developed from this movement (Lindert, 2004). Numerous states established institutions for the poor and *indoor* relief was created and the age of the poorhouse begun (Lindert, 2004). During the second quarter of the 19th century, the poorhouse concept was imported from England. It was believed that institutionalized paupers would reform and cure them of bad habits and character that were the source of their poverty (Green, 1999).

Turn of the 20th century. During the late 19th century and into the 20th century, state institutions as well as charities created institutions for example poorhouses, homes for the aged, and orphanages for poor individuals and families. To limit serving only the truly desperate these institutions conditions were often intentionally harsh (Willamson, 1984). Local governments, typically counties, also offered relief by providing fuel, food, and on occasion cash to the poor. Those able were required to labor for the county or town, typically doing difficult physical jobs such as shoveling coal or maintaining roads (Lindert, 2004).

According to Kent (2000), “at the beginning of the twentieth century, most Americans hovered around or below the poverty line” (p.182). Although official poverty statistics were not compiled until 1965 by the U.S. Office of Economic Opportunity (OEO), varying estimates state 40% to 56% of all American families lived in poverty at this time. American budget experts developed a number of *standard budgets* representing different levels of living from 1905 to the mid-1960s. Today analysts frequently use the terms *absolute* and *relative* to define poverty thresholds. Absolute thresholds are fixed at a point in time and relative thresholds are updated regularly for changes in real consumption (Citro & Michael, 1995). As the general standard of living rises or falls, so does the standard of living for those in relative poverty. “Their standard is relative to that of the society in which they live” (Rees, 2001, p. 5).

In 1909, President Theodore Roosevelt called a White House Conference on Dependent Children to address the issue of poor single mothers and their children. The conference stated that maintaining the family within their home was preferred to placing the poor in institutions. At the time, institutions were frequently criticized as expensive failures (Asen, 2003). The White House Conference on Dependent Children indicated a change in government’s attention to children's welfare. It represented a turnaround from the model explained more than a half-century before by President Pierce “that the federal government had no responsibility in matters of social welfare” (Trattner, 1999, p. 215). Against business interests fearful of the loss of child labor it was 3 more years until President Taft signed the U.S. Children's Bureau into law on April 9, 1912 (Lindenmeyer, 1997). Previously children's welfare was considered a local community or private charitable issue but gained federal attention with the creation of the U.S. Children's Bureau with an initial token appropriation of $25,640 (Trattner, 1999). Although equipped with no legal authority, it acted as the main lobby for children's interests at the national, state, and local levels (Lindenmeyer, 1997).

An additional development of the 1909 Conference was the *mother's pension* movement (Davis, 1930). The mother's pension movement, starting in Illinois in 1911, sought to supply state aid for poor fatherless children. The intention was for children to be able to stay in their own homes and be taken care of by their mothers. As a consequence, poor single mothers where then exempt from taking employment outside the home (Handler & Hasenfeld, 1997). Therefore, dependent motherhood had become "distinctly recognized as a problem of mass poverty which could not be consigned to voluntary charity" (Bortz, 2007, para. 3). At the time, welfare reformers took the position that the mother's pensions would limit juvenile delinquency. They believed that mothers would supervise their children full time limiting the trouble their children would get into (Machtinger, 1999).

Historically, the U.S. government had a *laissez-faire* policy toward business and national economics. This policy was a result from the economic theories of the 18th century Adam Smith who advocated free enterprise and a limited government role of establishing the ground rules (Samples, 2002). During the 1920s and earlier, laissez-faire dominated federal government policy dealing with economic depressions and at the point in time federal welfare programs were still nearly nonexistent (Smith, 1936). While the government did not greatly intervene in the

1920-1921 recession, many of President Roosevelt's New Deal policies originated there (Howenstine, 1946).

An important development was when Herbert Hoover was appointed Secretary of Commerce by President Harding in 1921 to organize an economic conference and a committee on unemployment (Lyons, 1948). The President's Conference on Unemployment created an area office in each state that experienced substantial unemployment. Local branches and Mayors' Emergency Committees were created in 31 cities. The committees pushed business organizations to resolve the unemployment difficulty and the committee organized cooperation between local and federal governments (Rothbard, 2000). Although this is an illustration of Hoover's volunteerism efforts it established a foundation for future anti-depression social policies (Lyons, 1948). As Hoover stated in his memoirs:

> We developed cooperation between the federal, state, and municipal governments to increase public works. We persuaded employers to "divide" time among their employees so that as many as possible would have some incomes. We organized the industries to undertake renovation, repair, and, where possible, expand construction. (Hoover, 1952, pp. 41-42)

When Hoover was elected President in 1929, he argued that there were technical answers to all economic and social problems (Hoover, 1979). In Hoover's inaugural, he warned of the dangers of a large and activist federal government. He stated that the government should encourage and assist actions of collective self-help (Fausold, 1985). Hoover suggested programs heavy on government planning with voluntary action under central direction (Dorfman, 1959). In Hoover's first year as president he was confronted by the Great Depression, which began in 1929. President Hoover vigorously attempted to battle the depression by initiating volunteer and governmental action; neither produced economic recovery during his presidential term. Hoover mostly avoided legislative relief plans, with the exception of accelerating expenditures for public works. He remained stubbornly opposed to large-scale and permanent government spending on relief and welfare (Fausold, 1985).While Hoover's endeavors were little in contrast to that of the forthcoming Roosevelt administration, he still surpassed any actions from any federal administration that preceded him.

The New Deal*.* Franklin D. Roosevelt was elected to the Presidency in November 1932, which was the lowest point of the Great Depression, to the first of four terms. By March of the next year more than 13 million people were unemployed, and nearly every bank was closed (Rothbard, 2000). Immediately during Roosevelt's *first hundred days*, he proposed, and Congress enacted, a far-reaching agenda to start the economic recovery in agriculture and business, provide a reprieve to those in danger of losing homes and farms, and relief to the unemployed. The emphasis during the first 2 years of "President Roosevelt's *New Deal* was to provide work relief for the millions of unemployed Americans" (Freidel, 2000, p. 69). One of Roosevelt's early presidential acts was to create the Federal Emergency Relief Administration (FERA). FERA administered local unemployment relief. Federal funds were channeled to the states for public works projects, which it is estimated ultimately put to work 13 million of the jobless. FERA established the doctrine that "adequate public relief was a right that citizens in need could expect to receive from their government" (Hopkins, 1999, p. 309).

The states maintained the responsibility for the care of the supposed *unemployables* (poor children, widows, the disabled, and the elderly poor). Private charities and states were not able to maintain aid for this group particularly as personal giving and tax collections were declining severely. The troubles faced during the Depression became too much for both local charities and governments. Federal aid began to directly assist needy victims of the Depression. Federal funding however, came with the caveat that included the hiring of social workers (Sowers & Dulmus, 2008). Numerous private charity social workers switched to government service and the position that *unemployables* required aid from social workers was born (Ehrenreich, 1985).

Addressing Congress, Roosevelt made the case that programs that prolonged government relief was detrimental for the country:

> The lessons of history, confirmed by the evidence immediately before me, show conclusively that continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit. (Roosevelt, 1935, p. 8)

Roosevelt saw government relief as temporary; he also saw that relief could not be done without a *safety-net*. In his Roosevelt's 1935 State of the Union Address he declared, "the time has come for action by the national government" to provide "security against the major hazards and vicissitudes of life" (Polenberg, 2000, p. 49). He then presented the idea for the establishment of the old-age insurance programs and federal unemployment. Roosevelt also requested guaranteed benefits for poor single mothers, their children, and other dependent people (Handler, 1991). Roosevelt believed that by permanently increasing the federal government's responsibility for the safety and wellbeing of each American that, over time, the needs for government *make work* employment and other types of Depression aid would fade away over time.

On August 14, 1935, the Social Security Act was signed by Roosevelt and established, among other things, a federal retirement program for people older than 65 (Handler, 1991). The

Social Security program was initially funded through a 1% payroll tax paid jointly each year by both employers and their workers. As the federal government collected taxes for welfare it thus became a federal government responsibility. Roosevelt believed that the combination of pensions and unemployment insurance would supply the financial security that was required during both bad and good times (Burg, 1996).

Adding together unemployment insurance, pensions, and the Social Security Act created a small national welfare system. Under Title IV of the Act one third of the state's total expenditures for assistance to the dependent and needy children under age sixteen were guaranteed by the federal government. This program became the Aid to Families with Dependent Children (AFDC). This guarantee did not include funds for dependent children's mothers (Mead, 1992). Further federal welfare assistance was available to the needy blind, crippled children, and destitute old people (SSA, 2007a). While financed in part by federal tax money, the states were able to set their particular eligibility standards and benefit levels. This portion of the Act was pressed by the states in the south so they could control the benefits offered to their African American population by excluding predominant occupations of racial minorities (Poole, 2006).

It was held by Roosevelt and Congressional supporters that the Social Security Act's welfare terms would only be necessary until employment strengthened and those reaching 65 collected Social Security pensions (Levitan, 1986). A major problem with this position was that a significant number of Americans, including domestic servants and farm laborers, were excluded from Social Security old age retirement programs owing in part to racial biases (Poole, 2006). Also, since the 1930s, increasing divorce and fatherless families dramatically increased the amount of poor single mothers with dependent children. As recently as in the year 2000, nearly one third of all children in the United States lived with one parent, usually with the mother (Baskerville, 2004).

During the 1930s there was a change in opinion toward the jobless. Secretary of Labor Frances Perkins stated in a 1935 national radio address explaining Roosevelt's Committee on Economic Security proposals:

> Our abundant pioneer days are not very far behind us. With unlimited opportunities, in those days, for the individual who wished to take advantage of them, dependency seemed a reflection on the individual himself, rather than the result of social or economic conditions. There seemed little need for any systematic organized plan, such as has now become necessary. (Perkins, 1935, para.7)

Until the 1930s New Deal, the federal government had been considered as a regulatory power. The federal government protected the public's health and safety and enforced antitrust and commercial fraud laws restricting concentrations of economic power (Cowger & Markman, 2003). Beginning in 1933, "Roosevelt and the Democratic Congress enacted several statutes that created new federal agencies taking the government into deeper regulatory waters" (Hall, 2009, p. 35). Roosevelt also put the "federal government into the business of cash payments; welfare benefits, railroad retirement, and Social Security" (Cowger & Markman, 2003, p. 179).

As the 1930s and 1940s showed great change in social welfare policy development, the 1940s and 1950s are often portrayed as a time of contentment. President Truman (1945 - 1953) went along with Roosevelt's policies, but quickly formed his own which were labeled the *Fair Deal.* Truman recommended the increase of Social Security benefits, a permanent Fair Employment Practices Act, and a full-employment program. The Fair Deal, Truman wrote, "symbolizes for me my assumption of the office of President in my own right" (Freidel, 2000, p.

71). President Eisenhower (1953 - 1961) maintained a majority of the New Deal and Fair Deal programs as he stressed a balanced budget, and generally pursued a middle course in domestic policy.

In comparison, the 1960s and 1970s were times of significant social welfare policy change. During President John F. Kennedy's 1960 presidential campaign, "Kennedy said he would ask Americans to meet the challenges of the *New Frontier* (Patterson, 1997, p. 458). The *paradox of poverty amidst plenty* disturbed President Kennedy and prompted him to direct his Council of Economic Advisers to develop the antipoverty proposals as part of his New Frontier (Schick, Schick & Carroll, 1989). These initiatives would develop into the foundation for the *War on Poverty* declared by President Johnson in 1964.

President Kennedy wanted to hasten economic growth through the increase in government expenditures and the reduction in taxes (Patterson, 1997). He also "pressed for medical help for the elderly, aid for inner cities, and increased funds for education" (Bremner, Reichard, & Hopkins, 1986, p. 107). Much of Kennedy's proposals were not enacted. The Kennedy administration had considered a federal effort against poverty, "If a free society cannot help the many who are poor, it cannot save the few who are rich" (Kennedy, 1961a, para. 8).

The war on poverty. President Lyndon Johnson began a campaign to bring racial equality and economic opportunity to all Americans. He called his program the *Great Society* which recognized poverty as a major social problem (Ventry, 2001). He considered that problems associated with income, housing, health, and employment were in the end a federal responsibility (Bremner, et al., 1986). In his 5 years in office, Johnson leveraged the power of his presidency along with his impressive political skills, which he called *jawboning*, to enact more legislation than had any other president (Rorabaugh, Critchlow, & Baker, 2004). Federal expenditures increased radically as the federal government introduced new programs as Food Stamps, Medicare and several educational programs through financial student assistance including grants to colleges and schools (Bremner et al., 1986).

A significant feature of Johnson's *Great Society* was his *War on Poverty* legislation to end poverty in the United States. The *War on Poverty* was the name for legislation first introduced by Johnson during his 1964 State of the Union address (Holland, Johnson, & Shreve, 2005; Johnson, 1964). This was a time of recovery and expansion as the U.S. GNP had increased from $101 million in 1940 to over $526 million in 1960 and the poverty level had dropped from 22.4% in 1959 to 19% in 1964 (U.S. Department of Commerce, 2007).

Johnson requested Congress to enact the Economic Opportunity Act of 1964, a law that created the Office of Economic Opportunity (OEO) which would administer the local use of Federal funds earmarked to reduce poverty. There was a consent between policy makers that the most productive way to address poverty was to provide a "'hand up not a hand out' and not solely to increase the incomes of the poor but to assist them in 'bettering themselves through education, job training, and community development'" (Foner & Garraty, 1991, p. 471). The federal government increased the minimum wage and ratified programs to prepare poorer Americans for new and better jobs. Two of these programs included the 1964 Manpower Development and Training Act (MDTA) and the Economic Opportunity Act, which created programs such as the Neighborhood Youth Corps and the Job Corps (Sticker, 2007).

President Johnson's advisers were confident that steady economic growth would continue through the next 2 decades similar to the prior 2 decades. Because of this belief, Johnson's focus was on macroeconomic policies to end poverty. Johnson's administration believed that these policies would maintain a strong economy and supplement a modest allocation of resources to his antipoverty programs (Foner & Garraty, 1991). In addition to poverty, public policies were also considered the vehicle to resolve lagging regional economic growth, labor market discrimination, and poor labor skills of the working poor. Government actions “could improve economic performance; raise the productivity of the poor and remove discriminatory barriers to economic participation” (Danziger, 2007, p. 5).

Johnson's view to increase the government's part in social welfare initiatives from healthcare to education was a carry-over from Roosevelt’s 1930s and 1940s New Deal. It was not long before Johnson converted the “federal government into a far more proactive force for social justice, striking down discriminatory practices and offering a hand up with education, health care and job training” (Cowger & Markman, 2003, p. 179). These roles had previously been the domain of states and private charities. He vested the “federal government with the responsibility to soften the sharp elbows of capitalism and give the federal government a beating, human heart; to redistribute opportunity as well as wealth” (U.S. Congressional Record, 1999, p. E2121).

Before the Johnson administration the “federal government was not training a single worker” (Cowger & Markman, 2003, p. 179). There were limited federal public service employment (PSE) programs from the period of the Great Depression to the early 1970s. Indeed, from the years 1943 to 1961 there was nominal government participation in training or employment programs (Friedlander & Burtless, 1995). Federal participation in training increased through the ratification of the MDTA. The MDTA’s purpose was to provide workforce development training for thousands of workers who became unemployed due to technological and automation advancements (Levitan & Taggart, 1976).

The idea of a *War on Poverty* declined after the 1960s. While there were *Great Society* achievements such as Head Start and adding two-parent families to the AFDC program, the Johnson Era initiatives would be viewed as the *Big Government* model conservatives would contest for decades to come. The combination of dismissing liberal solutions to difficult social problems by conservatives and the escalation of troop deployment to the Vietnam War campaign, 1966 would be the last active year of social welfare policy implementation of the Johnson administration (Cowger & Markman, 2003).

Johnson's *War on Poverty* did not eradicate poverty and decades later, against projections; poverty continued to be widespread in America (Cowger & Markman, 2003). The era of increasing real wages for the majority of workers and the stable economic growth which increased living standards for many families ended abruptly during the mid-1970s (Johnson, 1968). In 1969, President Nixon's proposed Family Assistance Plan (FAP) was intended as a replacement for the service-oriented AFDC program (Burke & Burke, 1974). The FAP program's goals were "consistent with the U.S. welfare practice in that mothers with young children should stay home and take care of them" (Featherman & Vinovskis, 2001, p. 149). President Nixon was a supporter of this as reflected in his statement "a welfare mother with pre-school children should not face benefit reductions if she decides to stay home. It is not our intent that mothers of pre-school children must accept work" (Nixon, 1978, p. 426).

FAP included a guaranteed national minimum welfare benefit, which Nixon preferred to call a *negative income tax* (NIT), coupled with a work requirement. The FAP was structured to provide guaranteed cash income to all families as a substitute to public assistance. In recommending FAP Nixon stated "that the nation should assure an income foundation throughout every sector of America for all parents who cannot adequately support themselves and their children" (Nixon, 1974, p. 650).

Despite the fact that the FAP failed in the Senate, its defeat created backing for incremental legislation that included associated ideas; guaranteed income for older Americans (Supplemental Security Income), automatic cost-of-living adjustments (COLAs) for Social Security recipients, and encouraged the increase of food stamps and health insurance for low-income families (Danziger & Gottschalk, 1995). In regards to this legislation, Nixon stated "It reaffirms and reinforces America's traditional efforts to assist those of our citizens who, through no fault of their own, are unable to help themselves" (Woolley & Peters, n.d., para. 5).

It was President Nixon's conviction "that the best way to help people in need is not with a vast array of bureaucratic services, but by providing them money and insurance so that they can secure needed services for themselves" (Woolley & Peters, n.d., para. 6). The idea that welfare recipients required government sponsored social workers assistance was supplanted by the view that their needs were economic (Danziger, 1999). FAP including other NIT or guaranteed income plans highlighted the creation of a national minimum welfare benefit, the expansion of welfare to two-parent families, the decrease of work deterrents stemming from AFDC's high marginal tax rate on earnings, and the severance of social services and cash assistance (Lampman, 1965; Tobin, 1966).

Political debate regarding FAP emphasized shortcomings in tax transfer programs that condemned the program. These discussions, however, educated politicians as to the power of the tax system and how it could be used to lessen or, alternatively, exacerbate social problems (Ventry, 2001). After the defeat of FAP, welfare reform continued as a focal point of federal policy debates (Rochefort, 1986). The welfare system was hindered with high budgetary costs, program work disincentives, and higher in-kind and cash benefits obtainable by an increasing percentage of the poor (Danziger, 1999). As welfare expanded there was a growing concern that welfare programs were sustaining dependence and fostering joblessness (Anderson, 1978; Murray, 1994). Even President Nixon stated that he would “renew [his] efforts to achieve a work-oriented welfare program that will help all deserving people on a fair and equitable basis but which will contain firm work requirements, and will not encourage idleness by making it more profitable to go on welfare than to work” (Woolley & Peters, n.d., para. 11).

Better jobs and income. In response to rising unemployment, Congress enacted a series of Public Service Employment (PSE) programs as part of the 1971 Emergency Employment Act. The Act authorized a 2 year program to fund approximately 100,000 jobs with local and state governments. PSE programs were “designed to address aggregate unemployment not specifically targeting the disadvantaged” (Bartik, 2001, p. 12). Job creation strategies where then consolidated under the Comprehensive Employment and Training Act of 1973 (CETA). The PSE turned into the largest element of the CETA budget. CETA displayed President Nixon's deep commitment to federalism by transferring the majority of the funds through revenue sharing and block grants to local and state governments which acted as *prime sponsors* for the program (Nixon, 1969). The *prime sponsors* then provided funds to service providers for administration costs and training programs for the PSE programs. Not since the 1930s and the Works Progress Administration (WPA) had the U.S. undertaken such a significant undertaking to creating job opportunities for the unemployed.

When CETA was enacted the U.S. was experiencing a time of low unemployment. As Mirengoff, Rindler, Greenspan, and Seablom (1980) noted, it is through such periods that “attention reverts to the structurally unemployed” (p. 100). Title II of CETA was formed to mitigate joblessness and provided PSE projects that were focused on the habitually unemployed. PSE required participants to be living in high unemployment areas and unemployed for at least 30 days. During the middle of 1974 the U.S. economy weakened, and by that fall the country entered a recession. In December Title VI was added to the original CETA legislation expanding CETA's coverage by establishing a program that was countercyclical to the PSE which provided temporary jobs to lessen unemployment amongst the general population (Lerman, Barnow, & Moss, 1979).

The requirement of living in an economically distressed area no longer applied to the PSE. Considerable Title VI participants were now well-educated, white male and not the economically disadvantaged (Ellwood & Welty, 1999). By May 1975 "the unemployment rate had risen alarmingly, to nearly 9 percent" (Sawhill, 1979, p. 24). One unintentional result of the shift from the original legislation was that benefits to the poor and disadvantaged were diminished. Reviving interest in the chronically unemployed, amendments to CETA in 1976 aimed a larger proportion of the PSE jobs to the needy, principally welfare recipients and the structurally unemployed. Because it was considered appropriate that mothers stay at home to care for young children few AFDC recipients participated in CETA (Holcomb, 1993).

CETA provided federal funds to select eligible entities known as *prime sponsors*, primarily local and state governments. Federal funds in the form of grants were for programs targeting employment prospects and job training for economically underemployed, unemployed, or disadvantaged individuals (Marshall, 1981). Prime sponsors singled out organizations and projects and dispersed funds as they saw fit. This decentralization of authority was an attempt at flexibility to better address local needs but created problems instead. Early accusations were targeted at prime sponsors throughout the CETA for customarily *creaming* or hiring based of political or personal interests (O'Leary & Straits, 2004). Prime sponsors were also accused of *substitution*, or hiring CETA workers in government jobs that normally would have been paid for through local and state budgets (O'Leary & Straits, 2004).

Although PSE originally created new jobs there was strong evidence that from 1966 to 1975, displacement increased quickly over time (Johnson & Tomola, 1977). Researchers asserted that a PSE program that had initially 100 slots resulted in displacing 31 existing workers by the third quarter of its existence and 97 workers by the sixth quarter. That is, "after 18 months there was full displacement" (Ellwood & Welty, 1999, p.12). Although additional studies site lesser displacement rates, displacement would turn out to be a criticism of the overall program's lack of effectiveness. Accusations of CETA fraud and abuse were also common (Betsey, Hollister, & Papageorgiou, 1985).

The CETA program had unsuccessfully resolved what looked to be an incompetent use of taxpayers' funds and, as Dubin (1987) noted, "total elimination of CETA became a major priority for the national administration elected in November 1980" (p. 84). CETA was a clear target as total CETA appropriations from 1974 to 1982 equaled approximately $58.3 billion and single year appropriations peaking in 1979 at $11.7 billion (GAO, 1997). According to Franklin and Ripley (1984), "CETA's *expenditure bulge* in the late 1970s was caused by the growth of PSE programs" (p. 22). In 1978, 750,000 PSE participants accounted for greater than half of all CETA positions (Mirengoff et al., 1980). In answer to growing negative opinion, PSE positions were slashed to 328,000 by 1980, even before Ronald Reagan was elected president, who was adamantly against direct efforts to create public jobs (Danziger & Gottschalk, 1995).

1990s. By the mid-1990s, "the U.S. had rejected the idea of fighting poverty by raising the incomes of the non-working poor" (Danziger & Danziger, 2005, p.10). The start of the welfare reform debate of the 1990s dates back to the 1960s. Originally the AFDC was intended in the 1930s as a little program to assist poor widows with the ability to take care of their children at home. By the later part of the 1960s the AFDC had grew into a much bigger program aiding predominately separated, divorced, or mothers who never married and their children, many of them ethnic and racial minorities.

Deregulation, and rising condemnation of the welfare state, and an ideological swing to decreasing federal aid to the poor in the 1980s and 1990s resulted in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWOR), that Bill Clinton claimed "ended welfare as we know it" (Weaver, 2000, p. 222).

Democrat candidate Bill Clinton ran for president in 1992 and made the commitment to end welfare as it had been run for decades. Clinton wanted to “help people make the transition from welfare to work. He proposed that anyone receiving welfare should go to work within two years” (Gillon, 2008, p. 178). Many Republicans were in favor of ending welfare but detractors in Clinton's own political party cited three barriers that precluded welfare recipients from obtaining work. Many welfare recipients could not secure employment because they were unskilled or lacked work experience. Second, those who could find jobs frequently landed jobs that could not support a family. And third, work was just not available. While Clinton labored to overcome these barriers, he influenced Congress to increase the EITC (Weaver, 2000). Clinton also recommended that the government should provide jobs for welfare recipients that were unable to secure work. Congress, now having a Republican majority, rejected his recommendations (Gillon, 2008).

1996 Welfare Reform Bill. The Congressional elections of 1994 would be nicknamed the *Republican Revolution*, as “Newt Gingrich engineered a majority-taking election effort” (Quirk

& Binder, 2005, p. 205). In an effort to promote their agenda, "Republicans united by the 'Contract with America' made welfare reform a top priority" (p. 210). Core to the Republicans' philosophy was a "belief in 'devolution' or the ceding of federal power to state or local government" (Levin, Landy, & Shapiro, 2001, p. 230). Allocating more authority to local government was considered more effective and responsive than maintaining power in a federal bureaucracy. History had witnessed the expanded federal involvement in social welfare and particularly so during the Depression. The yielding of federal power to local or state government was derived from the original American social policy model of local control expressed during the era of the Poor Laws of 1601.

Clinton and a Republican Congress negotiated major concessions for welfare reform. After 18 months of laborious debate, in 1996 Congress voted for and President Clinton signed into law the PRWOA. The PRWOA ended 61 years of AFDC cash assistance guaranteed to eligible poor families with children. The new welfare reform law assigned to the states the power to devise their individual welfare programs with the intent to move recipients to work (Schiller, 2001).

Through this new welfare law, AFDC was supplanted by the Temporary Assistance for Needy Families (TANF) program. The TANF was financed through state funds and federal block grants. According to Schiller (2001), states were provided broad discretion in establishing eligibility criteria and the circumstances in which families may obtain public aid. Through the federal block grants, Congress attached firm work requirements that the states were mandated follow to receive funds (Handler, 1988). Families being paid cash-aid benefits were required to secure work within 2 years. States were able to excuse a parent for up to 12 months if they had a child who was less than one year at the time of application; States were required to transition

25% of their welfare caseloads to working status in 1997 and 50% of their caseloads to working status by 2002. States who were unsuccessful to attain those requirements forfeited 5% of their federal block grants; additionally, all adults were restricted to a maximum of five years of cash assistance throughout their lifetime. States were allowed to excuse not more than 20% of their caseloads from this five year limit (Collins, 1999).

The PRWOA extended further than simply imposing employment obligations for poor families with children. While food stamps continued as a federal program, Congress significantly limited benefits for all recipients of welfare as well as working poor families. Additionally, Congress increased qualifying standards for disabled children receiving Supplemental Security Income (SSI). Finally, Congress did away with all cash-welfare, food stamps, SSI, and Medicaid benefits for nearly all illegal immigrants (Schiller, 2001).

There were serious protests against the PRWOA because it was such a substantial alteration to the welfare system. A few of Clinton's key administration resigned in protest (Graff, 2002). They blamed Clinton for supporting a bill that did little to insure that every welfare recipient would have a job. The Urban Institute reported that PRWOA would bring about a loss of income to 10% of all American families. It further reported that the PRWOA would drive an additional 1.1 million children into poverty and 2.6 million people on the whole below the poverty line (Karger & Stoesz, 1998, p. 296). Senator Edward Kennedy labeled the act "legislative child abuse" (Giroux, 2001, p. 41).

Numerous Congressional Democrats cautioned that the nation's social safety net, which had been established during the Great Depression, was in danger of disintegrating (Karger & Stoesz, 1998). Others saw welfare reform as a means to punish the poor instead of providing assistance to raise them out of poverty (Graff, 2002). A report by Catholic Charities, U.S.A., reported that charities would not be able to bridge the estimated $15 billion per year shortfall in welfare cuts under PRWOA. They stated that the shortfall amount was “more than the total charities currently receive in gifts in one year” (U.S. Congress, Senate, 2001, S. 685). Even though Clinton believed the PRWOA was a major step in the right direction he recognized that there were major flaws within the act. He pledged to eliminate the flaws (Graff, 2002).

The PRWOA was given the majority of the “credit for the sharp decline in welfare caseloads” (Schiller, 2001, p. 207). Welfare rolls were at their historic high of five million families in the spring of 1994. By the fall of 2000 however, welfare numbers had declined by 8.5 million people or a reduction of 57% (Cohen, 2001). States were accused of being very good at *diverting* welfare applicants away from signing up for welfare but they were not as successful at creating work programs for current welfare families.

Data shows that a majority of the reduction in caseloads from the mid-1990s was a reduction in the percentage that received TANF income support rather than a decline in the very poor families with children who actually qualified (Simmons, 2004). A 2005 U.S. Department of Health and Human Services report showed that just 40% of families who qualified for state TANF income assistance and meet qualifying standards actually received TANF assistance for that year (Center on Budget and Policy Priorities [CBPP], 2009). By contrast, during the 1980s and early 1990s, the previous AFDC system provided cash assistance to nearly 80% of qualifying families.

The states take charge. Three features are essential to the majority of states’ present welfare reform programs: time limits on welfare receipt, earnings supplements, and mandatory employment services (Bloom & Michalopoulos, 2001):

Mandatory employment services. Possibly the easiest, and most influenced by policy to leave welfare, is to secure employment. Federal legislation beginning in the 1960s was passed to encourage welfare recipients to engage in work related activities. Until the enactment of the 1996 PRWOR welfare reform law, the majority of programs depended on mandatory employment services to reduce welfare rolls and increase employment. There are many types of employment services employed by states and debate as to the most effectual has persisted over the years.

The Family Support Act of 1988 (FSA) directed states to focus on providing education or training to the disadvantaged worker to be able to locate employment easier. In the 1990s, the attention shifted to rapid job placement, even though education and training was still an important component (Friedlander & Burtless, 1995; Gueron & Pauly, 1991). States were interested in relaying a firm work message and assist families find work. States accomplished this via employment training programs, and strategies that *make work pay*, support programs making work possible for many families, most markedly were better enforcement of child support collections and child care. These policies also benefited low-income families that did not receive TANF benefits. This helped families stay employed and off TANF (Parrott & Sherman, 2006).

The Urban Institute reviewed state policies and found that nearly all states require adults who accept cash welfare assistance, defined as AFDC or TANF, to either work or be engaged in work connected activities like job search assistance, education and training programs (Rowe, 2000). Recipients who failed to meet these requirements could have received sanctions or had welfare benefits decreased or lost. The directives to participate in the work programs are intended to shift additional welfare recipients into jobs. In addition, information collected by the CBPP found that all states require TANF participants to enter into employment plans or responsibility contracts. Failure to comply with the terms of these agreements may have resulted in the termination of cash assistance (CBPP, 2000).

Data collected by the (U.S. Department of Health and Human Services [HHS], 2007) showed that the greater part of TANF recipients were neither employed nor participating in work-related activities. Approximately 216,000 (22%) of adult TANF recipients, had unsubsidized employment in FY 2006. According to CBPP (2000), another 300,068 (23%) were participating in employment related activities, such as searching for a job (7.1%) and occupational training (9.3%). Only a small percentage participated in some type of activity that provided direct work experience. Just 4% were in *work experience* programs, just 1% in community service, and fewer than 1% were in on-the-job training and subsidized private and public employment. The residual 5.5 million, or 55% of adult TANF recipients, were not registered as participating in some employment related activities that are acceptable toward federal participation requirements. A few states counted TANF recipients who participated in mental health or drug treatment as meeting their requirements and the recipients were not counted by the federal government. The large percentage of TANF recipients who are not involved in work-related activities raises a question considering the pervasive conviction that welfare reform is all about work.

The main objective of welfare to work programs was to move welfare recipients off welfare and have them support themselves through employment. Wages are a useful measurement of this goal as are welfare benefit amounts. In a 2001 study of 20 welfare reform initiatives that categorized mandatory employment services as: job-search first, employment-focused, education-focused, and education-first showed that all programs were successful to some extent (Bloom & Michalopoulos, 2001). Every job-first programs improved participants' earnings by at least $400 per year. Education-first programs also increased earnings but by a smaller amount. The employment-focused and education-focused were the most effective at roughly $900 and $600 respectfully. These programs used a mixed approach tailored to individual needs instead of a standard approach for all participants.

Over a period of 10 years, Parrott and Sherman (2006) studied the effects of the TANF and found that employment amongst single mothers even though are more today than when the TANF was enacted have since dropped from 2000 levels. Single mothers who have been successful in leaving welfare for work typically experience higher incomes than welfare benefits but remain poor. They often incur significant work related expenses such as child care and transportation and receive marginal income growth over time.

Parrott and Sherman (2006) also found that the number of poor unemployed single mothers without cash public assistance and that do not reside with others who are employed or collect support has increased considerably. And that from 1996 to 2004 employed single mothers increased by approximately one million. However, during this same time period single mothers who did not work or receive public assistance increased by more than 400,000. By 2004 there were approximately one million poor single mothers, with two million children who are categorized in the *no work, no welfare*. TANF program involvement has also dropped significantly among poor families who qualify for the program. Under the former AFDC program participation rates were approximately 80% in the early 1990s to barely 48% in 2002, the final year that data is available (Parrott & Sherman, 2006).

Welfare reforms have targeted increasing work and reducing the use of public assistance, particularly cash welfare benefits. In a study of 20 programs, Bloom and Michalopoulos (2001) found that the result on cash assistance was directly linked to the effects on individuals' earnings.

As recipients earned more, the benefits they received were lowered. For many welfare recipients, each dollar earned decreased their welfare grant by a corresponding dollar. For those whose benefits were not reduced one for one, their benefits nevertheless contracted as earnings increased.

In summary, Bloom and Michalopoulos (2001) found that a number of general employment services can boost employment and earnings whereas more individualized programs generate the largest effects. They also found that participants only in mandatory work related services were not any better off than they would have been without the mandatory program and that their children were neither better nor worse off.

Earnings supplements. Findings related to mandatory employment services found recipients were no better off after participation (Knox, 2001). Partly for this reason, many states have taken action increasing the appeal of low-wage work to welfare recipients. A frequent instrument to attain this goal, recognized as *enhanced earned income disregard*, is to permit working recipients to enhance their pay by retaining more of their cash welfare benefits than under AFDC rules (Card & Blank, 2002). Using this approach, states hope to encourage welfare recipients to secure employment and enhance their economic circumstances. The fact that the majority of states currently use increased disregards more than during the 1980s signifies the importance of their effects on employment and income.

In the 1990s, policymakers reviewed two earlier approaches in designing earnings supplements to increase work and income. The first was the NIT which was studied thoroughly in the 1970s by both the U.S. and Canadian governments. The NIT guaranteed poor families a set level of income, frequently above the poverty level. Although the policies reduced poverty they also discouraged work. Another approach considered, called earned income disregards, and was first accepted in the U.S. during 1967 as AFDC rules were modified allowing recipients to maintain a higher percentage of their welfare benefits in addition to their wages. Even though disregards were thought to encourage the poor to seek employment the results were quite modest (Moffitt, 1992).

As reported in a number of studies, programs with earnings supplements are able to increase employment. The New York Child Assistance Program showed both employment and earning increases by providing supplements as an incentive for welfare recipients to secure a court order requiring that the noncustodial child's parent pay child support (Hamilton et al., 1996). Another example of positive employment and earnings is the Wisconsin New Hope program which provided low-income parents who worked full time with multiple supplements including earning supplements, child care subsidies, community service jobs, and health insurance (Bos et al., 1999). A modest effect on employment and earnings was shown in an Iowa program that included both mandatory employment services and earnings supplements (Fraker & Jacobson, 2000).

It should be noted that not all programs with earnings supplements increase employment. In Vermont's Welfare Restructuring Project, which provided modest earnings supplements had very little effect on employment (Bloom, 1998). Individuals who were employed full time upon entering Wisconsin's New Hope program actually reduced their work hours by cutting back on overtime. It is presumed that the earning supplements provided allowed them to work less hours without the loss of income.

Although earnings supplements have been shown to increase employment, there are no current state welfare programs depending solely on earnings supplements. At a minimum, "states have combined enhanced earnings disregards with mandatory employment services" (Bloom &

Michalopoulos, 2001, p. 14). In two programs, the Canadian Self-Sufficiency Project (SSP), and the Minnesota Family Investment Program (MFIP), in addition to earnings supplements employment services were offered. It was mandatory for individuals to partake in employment services in the MFIP program and participation in employment services was voluntary in the SSP program. The MFIP program participants experienced a $700 average annual earnings increase over a three-year period. The SSP program also experienced earning gains over and above what was experienced by participants who participated in earning supplements alone.

Time limits. Since 1994, 44 states (including the District of Columbia) have established lifetime time limits. These limits range from 21 months up to 60 months for the total length of time families are able to receive cash welfare benefits. According to the Administration for Children and Families 7th Annual Report to Congress on TANF, which documented TANF policies as of December 2006, stated that thirty-seven states imposed the 60-month termination limit. Seven states mandated limits of less than 60 months ranging from 21 to 48 months (HHS, 2009). A 60-month limit was stated in the 1996 federal welfare reform law for federally funded assistance for the majority of families. Time limits were designed to make recipients look elsewhere for financial support and to significantly reduce long-term welfare. Current research studying time limits is small and possibly reflects that declines in welfare caseloads were driven mainly by policies different than time limits (Parrott & Sherman, 2006). Limited research may also be directly related to the fact that time limits are only recently being reached.

There are both supporters and critics of time limits as they are amid the most dramatic welfare reforms of the 1990s. Proponents assert that the majority of welfare recipients will be able to substitute welfare benefits lost due to time limits with other sources (Cammisa, 1998). They also argue that time limits reinforce the idea that welfare is transitional and forces the welfare system and recipients to focus on self-sufficiency. Critics counter that time limits will bring about severe harm to many at risk families. They argue that numerous long-term welfare recipients have personal and family troubles and skill deficiencies that make it unfeasible that they could maintain employment.

Some evidence is available that enforcing time limits on welfare receipt may affect an individual's behavior. Welfare reform termination time limit initiatives were examined in random assignment studies in Connecticut, Delaware, Florida, and Virginia. In each study, the control group did not include time limit initiatives. Study outcomes found that each of the four programs increased employment. It was also determined that it is not possible to isolate the degree these results were influenced by time limits or additional program features for example earning supplements or employment services (Fein & Karweit, 1997; Gordon & Agodini, 1999).

Follow on surveys of families who were removed from welfare due to time limits determined that a good percentage struggle financially and rely heavily on public assistance and community and family support. It is also true that many of the families who left welfare for other reasons experienced similar hardships. It was also found that, in the near term, occurrences of extreme hardship, such as homelessness; appear to have been unusual among families who left welfare because of time limits (Bloom & Michalopoulos, 2001).

An Urban Institute study calculated substantive hardships among "disconnected welfare leavers" (Loprest, 2003, p. 197). That is poor families that no longer receive TANF benefits, do not receive disability benefits or cash aid, who are not working, and do not have an employed spouse. According to the study, this group represented 9.8 % of people who left welfare in 1999 increasing to 13.8% during 2002 and were "significantly more disadvantaged than other leavers," (p. 200). They were at a greater risk of economic hardship, were more likely to be in poor health

(41.3% compared to 25%), 54.7% had not completed high school or earned a GED, and 44.2% were without work during the past three years. In addition, 63.0% have had food run out with no resources to purchase more.

EITC

The federal EITC had been in existence 37 years as of 2012. Over the last two decades many localities and states have also ratified local earned income credits. In 1975, as part of the 1975 Tax Reduction Act the U.S. Congress established Section 32 of the Internal Revenue Code, which was a credit for families with children and earned income below $8,000. Thus the EITC was born, a refundable credit for low-income workers based on earned income. According to Ventry (2001), a Congressional Finance Committee report declared that the EITC would “assist in encouraging people to obtain employment, reducing the unemployment rate and reducing the welfare rolls” (U.S. Congress, Senate, 1975, p. 33). In addition, the EITC would offset the payroll tax burdens for low-income families.

Since its enactment, the EITC has become the principal federally funded means-tested antipoverty program in the United States. In FY2007, the federal budget allocated over $49.7 billion for EITC refunds and estimated over $50 billion for EITC refunds by 2010 (GPO, 2008b). Ventry (2001) argued that in the early 1990s the EITC suffered from “high error rates, significant work disincentives, and skyrocketing costs” (p. 50). The EITC survived these issues and consequently expanded for two reasons: the first was “it complemented the political stream by providing a coherent, pro-work, pro-growth, low-cost, anti-poverty program;” and secondly, “economic research indicated the extent to which it upheld the principles of the welfare reform consensus” (Ventry, 2001, p. 50).

The EITC experienced little if any changes during its first 3 years. In 1978 however, the EITC was made permanent and benefits were expanded (Holt, 2006). Also in 1978, Congress provided the advance payments option where credit recipients could receive benefits from their employer along with their pay throughout the tax year instead of one total refund payment after their tax returns were filed (Ventry, 2001). The credit was expanded significantly during a major federal tax overhaul in 1986. Because the EITC was not indexed for inflation there was a considerable decrease in the real value of the credit. Part of the efforts of the Tax Reform Act of 1986 (TRA86) was to remove taxes on poor families so the EITC was adjusted so the maximum 1987 credit was equivalent to the real value of the 1975 credit (Hotz & Scholz, 2001). TRA86 also indexed future credit increases for inflation (Ventry, 2001). Throughout this initial phase the EITC had continuous support from both conservatives and liberals. Each party was sensitive to the concept of lowering tax burdens on low-income families and rewarding work (Hotz & Scholz, 2001; Ventry, 2001). It is estimated that TRA86 eliminated more than six million working poor Americans from the income tax rolls by increasing personal exemptions, standard deductions, and liberalizing the EITC (Conlan, Wrightson, & Beam, 1988).

In 1990 the EITC developed into a more important policy tool as it was expanded to make certain that federal deficit cutback decisions did not create further burdens on low-income families (Holt, 2006). The Omnibus Budget Reconciliation Act (OBRA) of 1990 notably expanded the EITC program with three provisions: (a) EITC refunds were increased by 50%, (b) additional funds for children increased from one to two qualifying children, and (c) EITC recipients no longer were required to contribute 50% of support for qualifying children (Meyer & Holtz-Eakim, 2002). As a result many low-income families could now receive EITC refunds even though other sources of income including welfare benefits, child support, or Social Security exceeded earned income.

The OBRA of 1993 provided the largest single expansion of the EITC program by increasing the phase-out rates and maximum benefits while raising the breakeven point. The 1990 and 1993 bills almost tripled the size of the EITC from $7.5 billion in 1990 to $21.1 billion in 1994 (U.S. Congress, House, 2009, p. 872). This expansion disproportionately benefited families with two children. In 1993 the maximum EITC refund for a single parent with two children increased by more than 100% (Hoffman & Seidman, 2003). For the first time, the 1993 act extended EITC refunds to low income workers without children (Ventry, 2001). Workers without children and over the age of 25 received EITC refunds if earned income was less than $10,000 (Gish, 2000).

The PROWOR of 1996 shifted the burden of social welfare to the states and led to an increase in the development of the state-level EITC programs (Llobrera & Zahradnik, 2004). In 1986, Rhode Island established the first state nonrefundable EITC (Johnson, 2001). In 1994 seven states had a version of the credit, by 1996 eighteen states, and as of January 2009 twenty-four states, including the District of Columbia, have enacted state EITC programs. Of the 42 states with income taxes, twenty-three have enacted state EITC programs (CBPP, 2009). The federal and state EITC programs provided an alternative to traditional welfare. Neumark and Wascher (2001) argued that the additional state-level EITC programs significantly increased labor market supply, increased incomes above the poverty level, and provided more benefit than would increases in the minimum wage.

Overview. Thirty-seven years since it enactment, the federal EITC continues to play an important role in America's low-income workers, their families, and communities economic life.

To some degree, the EITC increases the ability of low-wage earners to support themselves and their families. The EITC is a refundable tax credit targeted to low-income working individuals, particularly those with children, who earn less than the federal poverty level. It is often considered one of the most successful anti-poverty programs (Reed, 2011).

The EITC has a Republican legacy. In the 1920s it was first instituted by Treasury Secretary Andrew Mellon and a Republican Congress but repealed in 1943. The concept of the EITC reemerged in the late 1960s during the Johnson and Nixon era debates over providing guaranteed minimum income (GAI) for all Americans and the problems of poverty and welfare dependency. As support for Nixon's FAP waned in 1971, Chairman of the Senate Finance Committee Senator Long proposed a substitute proposal, which was a tax credit for low-income working taxpayers, which he labeled a *work bonus* (Gish, 2000). Long's EITC bills were proposed in 1972, 1973, and even passed the Senate in 1974, but was rejected by the House. In 1975, as part of Republican President Ford's Tax Reduction Act of 1975, Long's proposal was enacted by Congress. In part, Ford was reacting to the case for a NIT that had been moved forward by free-market economist Milton Friedman.

Through the efforts of Senator Long (D-LA), the EITC's principal advocate, the EITC developed into a modest effort on lowering the repressive effects of increasing payroll taxes on the working poor (Ventry, 2001). The first credit enacted was part of President Ford's economic stimulus package and provided a modest $400 for low-income workers with children. In 1976, 6.2 million taxpayers received $1.25 billion with an average EITC per family of $201 (U.S. Department of Treasury [Treasury], 2008).

The modern EITC was enacted in 1976 under the Ford administration, extended by law each year through 1978, and became permanent by the Revenue Act of 1978 (Gish, 2000). Even though it began as a limited and temporary substitute to Nixon's NIT proposal, the credit has been expanded and refined. The EITC was intended to counteract the burden from Medicare and Social Security payroll taxes low-income working families were subject to while providing work incentives (Hotz & Scholtz, 2001). The credit amount was increased by the Deficit Reduction Act of 1984. In 1986, President Reagan proclaimed that the Tax Reform Act of 1986 removed millions of working poor from the income tax rolls. This was due in large part to the Tax Reform Act of 1986 increase of the EITC benefits to low-income workers (Burtless, 1999). The Tax Reform Act of 1986 also indexed the EITC for inflation.

In the 1980s, President Reagan endorsed a large 4% increase in the EITC rate from 10% to 14%. In 1990, President Bush endorsed an additional increase. The EITC became a wide-ranging welfare program under Bill Clinton's administration. The portion of the credit that is refunded is categorized as direct spending in the federal budget and increased from $10 billion in 1992 to $26 billion in 2000 (Treasury, 2008). The direct spending portion of the EITC was greater than the outlays for AFDC, the federal government's primary welfare initiative, even before AFDC was significantly reduced by welfare reform.

In the mid-1990s, 20 years after the EITC was enacted, many supporters were now critical of the program. Some in the popular press criticized the program labeling it "a program that pays taxpayers dollars to people who don't even earn enough to be taxpayers" (Bovard, 1991; Roberts, 1993, p. 125). The Republican *Contract with America* linked the EITC with the previously unsuccessful system of social provisions and several Republican legislators charged that the program was ineffective, rife with fraud, and too costly (Gillespie & Schellhas, 1994). The EITC had become part of the problem. It looked more like a welfare subsidy and had poor targeting. Senator Don Nickles (R-OK) and Judd Gregg (R-NH) argued for EITC cuts because

Congress must “restrain its unsustainable rates of growth” (Nickles, 1995, p. 35). This contrast sharply with past Republican positions, when EITC increases were preferred over increases in the minimum wage and welfare. In 1995, Senator Nickles called the EITC “the fastest growing, most fraudulent program that we have in Government today” (p. 41).

The EITC developed into an even more prominent policy tool when it was further reformed by the OBRA in 1990 and 1993 which significantly increased the size of the credit to low-income workers with children (Ventry, 2001). In 1990, as a response to federal deficit reduction initiatives, the EITC was expanded to offset the added burden on lower-income families. As the central feature of President Clinton’s strategy to make certain that a minimum-wage worker could support his family with full-time work, President Clinton and Congress in 1993 doubled the size of the EITC (Hotz & Scholz, 2003). Clinton’s EITC expansion also created, for the first time, a small credit for low-income workers without children (Caballero, 1995) and provided coverage for military families stationed abroad (Gish, 2000).

With the expansions of the EITC in the 1980s and 1990s, the EITC had become the leading federal aid program targeted to the working poor. By 1996, the EITC exceeded total state and federal AFDC payments (Ellwood & Lieman, 2001), and in 1998 the credit surpassed the Food Stamp Program in federal expenditures (Committee on Ways and Means, 2004). For the tax year 1998, the EITC was $32.3 billion claimed by an estimated 20.3 million tax filers. Of that amount $5.1 billion offset EITC recipients’ tax liabilities and $27.2 billion was in the form of cash payments in excess of claimant’s tax liability. For filers with children the average credit was $1,797 and adults without children $179 (Gish, 2000). Today, the credit continues as a substantial tax benefit for low-income workers with children and expenditures exceed the Child Tax Credit (CTC) and lag only the dependent exemption in total budgetary cost (Ellwood &

Liebman, 2001). In 2006, more than 23 million tax payers and their families received $44.4 billion from the credit (U.S. Department of Treasury [Treasury], 2009).

As the federal EITC gained prominence, states began incorporating earned income credits into their social policy agendas in 1986 (Johnson, 2001). According to Meyer and Rosenbaum (2001), by 1994 seven states had adopted their own version of the EITC administered through their state income tax codes. In addition to the 2009 federal EITC, 24 states including the District of Columbia have earned income tax credits. Twenty-three of the 24 state's EITC are in one of the 42 states with broad based income taxes. The state EITC is often calculated as a percent of the federal credit and when the federal EITC increases so do state's EITC benefits. As additional states have adopted EITC and other states have expanded current EITC the annual state EITC benefits will exceed $2 billion in 2009 (Llobrera & Zahradnik, 2004; State EITC Online Resource Center, 2009).

The TANF program was created, under President Clinton, by the Welfare Reform Law of 1996, also known as the PRWORA (Schott, Lazere, Goldberg, & Sweeney, 1999). TANF replaced what was commonly known as welfare and provided federal funding to States in the form of block grants. TANF encouraged the growth in state EITC by allowing TANF block grants to offset part of the costs of a state's EITC (HHS, 2009). In addition to welfare policy, States incorporate the EITC as a means for lessening regressive income and sales tax increases and budget cuts that excessively affect low-income families (State EITC Online Resource Center, 2009).

Current state's EITC cost less than 1% of state tax revenues each year with substantial dollar value variances from state to state. As an example, due to the size differences of each state's economies, Vermont's credit approximates $18 million per year, while New York State approximates nearly $700 million. Three other factors affect the outlay of a state's EITC: (a) the number of tax filers in a particular state that receive the federal credit and then the state credit, (b) the percentage of the federal EITC at which the state credit is set, and (c) whether the state credit is refundable or non-refundable (Kuney & Levitis, 2007).

A few localities have also implemented credits including: Montgomery County, Maryland, which implemented the credit in 1999 in place of a living wage law (Toikka & Neveu, 2003); Denver, Colorado implemented a local income credit with State TANF funds (Nevel, 2002); New York City, New York's income credit was implemented in 2004 (State EITC Online Resource Center, 2009) , and San Francisco, California initiated its $100 Working Families Credit in 2005 utilizing local general funds which were matched by charitable dollars (San Francisco Office of the Mayor, 2009). Ten foreign countries have a version of the EITC and include: Austria, Belgium, Canada, Denmark, Finland, France, Great Britain, Ireland, New Zealand, and the Netherlands.

EITC structure. The largest EITC payments are for workers who have qualifying children. Over the history of the EITC the definition of a qualifying child has been modified. For tax year 2008, a EITC qualifying child is defined as (a) a sibling or child of the taxpayer, a descendant of either a child or a sibling, including adopted and foster children; (b) had resided with the EITC recipient for a majority of the 2008 tax year; and (c) is under the age of 19, or under the age 24 if a full-time student or permanently disabled despite age. *Tiebreaker* rules govern circumstances when plural taxpayers with income can claim the same child, with the custodial parent maintaining priority in front of other relatives living with the child (Treasury, 2009).

The federal EITC is described by a distinct three-stage configuration that includes a phase-in range whereby the credit increases as earnings increase, a plateau range whereby the maximum credit has been attained and remains the same, and a phase-out range in which the credit decreases as earnings increase. Marital status and whether filing jointly, number of children up to two claimed, and income of the taxpayer decide the overall amount of the credit. Figure 7 illustrates the value of the 2008 federal EITC refund for single households: with no children; one child and; two or more children; also families filing jointly; with no children; one child and; and two or more children.

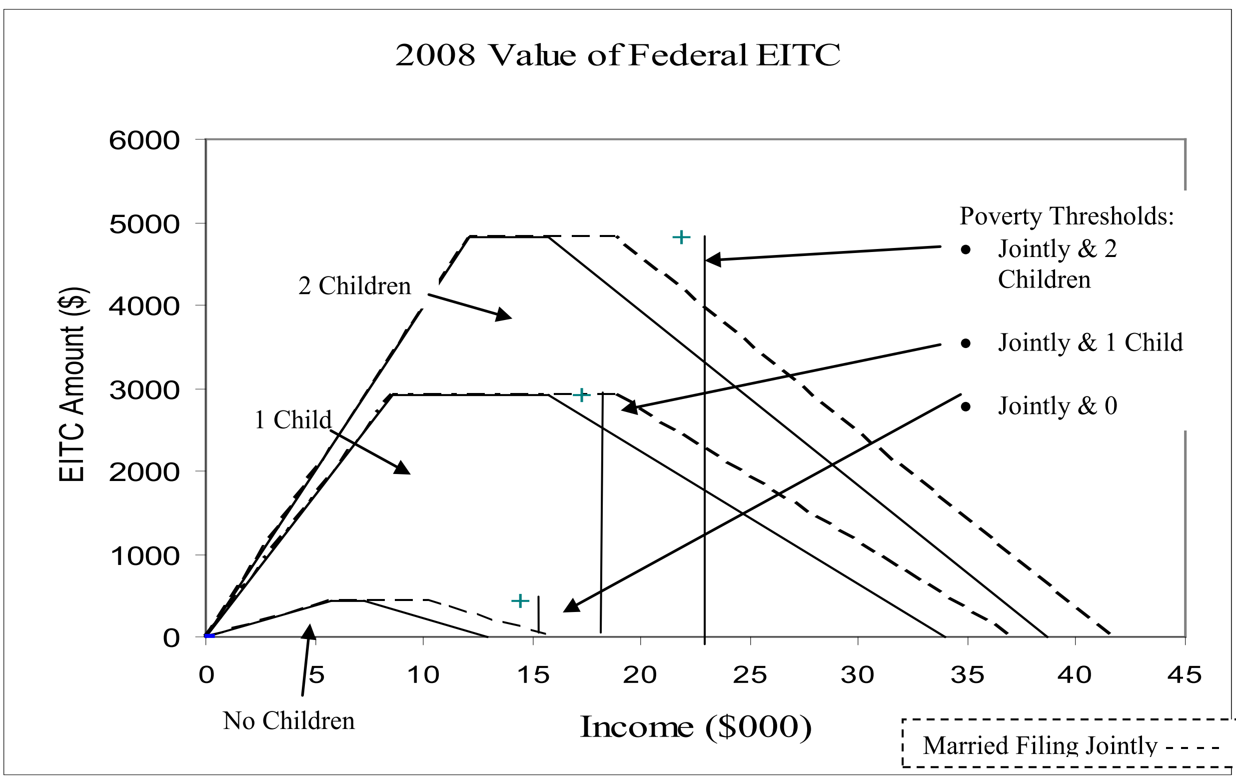

Figure 7. 2008 value of federal EITC. EITC source data from IRS; Poverty source data from U.S. Census Bureau.

Low-income workers with no qualifying children may receive the EITC if they meet the following conditions: are not someone else's qualifying child, between the ages of 25 and 64 years, and have resided in the United States for a majority of the year. Both the maximum credit amounts and the income limits for the childless worker credit are a good deal lower. Figure 7 also denotes 2008 U.S. Census Bureau poverty thresholds for families filing jointly with two children of $21,834 income per year, families filing jointly with one child of $17,330 income per year, and a family with no children of $14,417 income per year.

The structure of the EITC positively affects poverty reduction on households with children in comparison to households with no children. For example, in tax year 2008 a family filing jointly with two children and earning the poverty level would increase their net income after federal taxes $3,896 above the poverty threshold due to the EITC. Alternatively, a family filing jointly with no children earning the poverty threshold would receive an EITC of $111 or 45% of their tax burden. Upon paying the balance of their federal tax of $137 the family's net income would drop below the poverty level. A single filer with no children, earning the poverty level, would also fall below the poverty level. Their EITC would offset federal taxes by 31% lowering their net income after taxes to $279 below the poverty level. To a certain degree the EITC appears to accomplish policymakers' goal of rewarding work so full-time working parents do not have to raise their children in poverty.

From U.S. Treasury (2009) IRS tables it can be shown that the 2008 federal EITC provides a maximum refund of $4,824 for a family filling a joint return with two or more qualifying children. Their EITC would be graduated (at a rate of 40% of earned income) up to $4,824 when earned income is in the plateau range of $12,050 to $18,750 and then the credit gradually decreases to zero for incomes of $41,646. For single EITC recipients with two or more qualifying children, the EITC also increases to a maximum refund of $4,824 but for earnings in the plateau range of $12,050 to $15,750 then decreasing to zero at $38,650.

For a family filling a joint return with one qualifying child their credit would be graduated (at a rate of 34% of earned income) up to $2,917 in the earned income plateau range of $8,550 to $18,750 then the credit gradually decreases to zero at $36,995. For single EITC recipients with one qualifying child, the credit also increases to a maximum refund of $2'917 but for earnings in the plateau range of $8,550 to $15,750 then decreasing to zero at $33,995.

For a family filling a joint return with no qualifying children their EITC would be graduated (at a rate of 8% of earned income) up to $438 in the earned income plateau range of $5,700 to $10,250 then the credit gradually decreases to zero at $15,880. For a single EITC recipient with no qualifying children, the credit also increases to a maximum refund of $438 but for earnings in the plateau range of $5,700 to $7,250 then decreasing to zero at $12,880.

A particular attribute of the EITC program is that recipients can choose to receive incremental EITC payments in advance through their employers during the previous year. Less than 1% of annual EITC spending is paid out in advance (Treasury, 2009). A second feature of the EITC is its unusual timing pattern. While AFDC, TANF, SSI, and food stamps, are distributed on a monthly basis, the EITC is typically distributed in one annual payment to individuals filing tax returns similar to regular tax refunds. The EITC annual payment can be somewhat large. As individuals file for the EITC the credit payments are fully expected. In 1999, members of Congress proposed taking EITC annual payments and mandating that they be paid to beneficiaries in 12 monthly payments but was never passed (U.S. Congress, Senate, 2001).

EITC population. A study by Hoffman and Seidman (2003) utilized 1996 tax year data from the Panel Study of Income Dynamics and determined that 13% of U.S. households were entitled for the federal EITC. They found that 50.8% were White, 22.2% Black, 20.7 %, Latino, and 6.3% in other categories. They also found the following family type distribution among the study: 35.9% single female with children, 10.0% single male with children, 35.3% married with children, and 13.5% single with no children. In addition, 18.8 % reported no children, 30.0% one child, 28.9% two children, and 22.3% had three or more children. Another study using 1999 tax year data found that somewhat fewer than 50% of all EITC entitled households were headed by ethnic or racial minorities. This finding was comparable to Hoffman and Seidman's results (Stegman, Davis, & Quercia, 2003).

Other studies investigating EITC subpopulations discovered that: 95% of single mothers with two or more children without a high school diploma were eligible for the EITC and 65% for those with a high school education or higher were eligible (Meyer, 2002); 73% of households in 1997 that had children and entitled for food stamps were also entitled for the EITC (Mikelson & Lerman, 2004); 12% of military families were approximated to be entitled for EITC in 2004 (Bell Policy Center, 2005); and cohabitating couples with children were more probable to be entitled than married couples (Acs & Maag, 2005).

Survey instrumentation. The EITC survey instrument design was based on previous EITC consumption studies that provided direction for the instrument development method including Smeeding, Phillips, and O'Connor (2000). This current EITC study's instrument was used to measure EITC recipients expected positive economic mobility uses upon receiving the EITC refund. The survey instrument went through substantial revision including:

1. Structured in a format that would be uniform with the native language of the respondent (English, Spanish, and Tieng Viet);
2. Multiple choice items and ranking items were used as they are most commonly used for measuring individual knowledge, comprehension, and opinion;

3. The questionnaire was scrutinized to ensure that each item was written according to guidelines recognized for multiple choice items (Gronlund, 1998).

Pilot testing: Item revision. Two pilot tests were conducted; the first on December 15, 2005 with staff members from various government and non-profit agencies that represented numerous ethnic and cultural backgrounds utilizing hardcopy survey instruments. The second pilot test was conducted on January 5, 2006 in an offsite workshop setting at the Orange County United Way offices utilizing the Legal Aid electronic web based version I-CAN! in Tieng Viet, Spanish and English versions.

Each of the following issues were dealt with during instrument development; password protected, clear directions to the surveyed, definitive statement regarding the survey being on a voluntary basis, discriminating items, enough items, homogeneous items, high quality format, and clear directions to the scorer (Pense & Leising, 2004).

EITC survey data collection. Throughout the fall of 2005, the Santa Ana Economic Development Committee, United Way, and the Legal Aid Society of Orange County (LASOC) staff worked to develop an I-CAN! survey that included twenty core study questions and up to ten additional web based quality questions. Core study questions assessed EITC recipients planned consumption use, economic mobility interests, and demographics, while I-CAN! quality-control questions assessed ease of use and marketing of the I-CAN! services.

The following represents demographic and quality-control information gathered by the core survey questions:

- Race or ethnicity
- Gender
- Age

- Education
- Where customers had their taxes prepared last year
- Banked vs. no bank relationship
- Where checks are cashed
- Planned use of EITC refund
- Use of Payday loans, etc.
- Past, current and future plans for saving

There was strong interest in gathering additional information from survey participants such as:

- How did they hear of the free tax preparation service
- Ease of use
- Past methods of tax preparation
- Location that I-CAN! was completed
- User experience with I-CAN!

In addition to survey development, training sessions for on-site volunteers were provided on web based tax preparation services and survey implementation. Training addressed such topics as web based system operations, EITC rules and eligibility requirements, purpose and process of the study including; survey instrumentation, EITC applicants voluntary participation, methods for assuring confidentiality, and the project calendar and timeline. Training sessions occurred at various locations for four hours each.

Data was collected during January 2006 thru April 16 2006. In order to collect the data the survey was included in the I-CAN! application and was completed at the end of the tax return preparation process. Volunteers were available to assist EITC applicants at twelve separate physical locations in their EITC application process as well as completing the survey.

Saving and consumption. A stream of research within the EITC literature examines the savings and consumption of EITC refunds by recipients. That research found that (a) recipients preferred the lump-sum EITC refund instead of the advance payments throughout the year, (b) EITC recipients used refunds differently from earned income, and (c) at best only a small proportion of EITC refunds were saved in traditional financial institutions or used for asset building and economic mobility.

Edwards (2004) provided evidence that EITC recipients disproportionately spend rather than save EITC refunds. Edwards also found that EITC disbursements have consistently been disbursed earlier over time compared to personal income tax refunds. Edwards used U.S. Census Bureau trade data labor statistics from 1982 to 2001 to measure consumption of EITC refunds. The lump-sum distribution of EITC refunds, particularly during the months of February and March, allowed for this form of analysis. Edwards analyzed consumption of EITC refunds with a multivariate regression model that measured the marginal propensity to consume EITC refunds.

Edwards (2004) noted a shift in recipients receipt of the credit from predominately March to February. He also found that credit recipients immediately spend about 70% of EITC refunds in the month they are received on durable and nondurable goods and services. He also found that there was little evidence that savings accounted for a disproportionate share of the EITC consumption. His research emphasized the uniqueness of the EITC as a powerful fiscal stimulus program. Edwards argued that the EITC recipients have a much higher marginal propensity to consume durable goods thereby benefitting the economy. He noted that other tax-transfer programs, TANF, AFDC, and food stamps, do not provide these same benefits to the economy.

Barrow and McGranahan (2000) used Consumer Expenditure Survey (CES) data from 1982-1996 to look at the effect of EITC refunds on consumption seasonality. The CES is a national survey that asks consumers questions about their monthly expenditure patterns, assets, income, and family structure. From the CES data, researchers estimated eligibility for the EITC and predicted the EITC refund for a household. Barrow and McGranahan adopted an expenditure model developed by Paxson (1993) to explain seasonal consumption patterns by EITC recipients. This unique model of consumption transformed EITC refunds into monthly amounts, and tested for consumption smoothing.

Barrow and McGranahan (2000) found some evidence of consumption smoothing since recipients did not spend the entire amount of their credit refund within the month of receipt. The regression model estimated that EITC recipients consumed 20% of the EITC refund during the month it was received. However, the main contribution of the study was identifying the use of EITC refunds on the consumption of durable goods. According to their research, EITC refunds lead to a significant increase in spending on durable goods and to a smaller degree on services and non-durable goods during the month of February compared to non-eligible credit households. This penchant for durable goods signifies that the EITC makes possible purchasing big-ticket items by low-income families. The researchers acknowledged that their model underestimated consumption of EITC refunds, which they speculated was a result of their overestimating the number of families receiving the EITC due to failure to fill out necessary schedules, file taxes, or their under reporting of income.

Smeeding, Ross, O’Connor, and Simon (1999) examined how the EITC influences individuals’ expectations and expenditure patterns of EITC refunds. Using 1997 tax return and survey data, they sampled 650 EITC Chicago families with qualifying children who made use of free tax preparation services offered by the Center for Law and Human Services. Smeeding et al. validated the sample as representing the EITC population in the Chicago metropolitan area by utilizing interviews and comparing demographic data from their sample to IRS data. They also validated the EITC amounts and total refund amounts by comparing them to IRS data. Consistent with the IRS data, Smeeding et al. found that the average EITC refund was $1,800 and this amount constituted 90% of the total federal tax refund. The remaining 10% was likely from federal income tax over withholdings.

Smeeding et al. (2000) examined expenditures of EITC refunds for (a) improving economic mobility or investment use and (b) making ends meet through consumption. The making-ends-meet hypothesis was considered current consumption, included the payment of regular bills; utilities, rent, food, clothing, groceries, furniture, and household items. The economic mobility hypothesis was considered a long-term investment, included all forms or work related expenses, child care, sharing money with family members, savings, bank loan payments, auto related expenses, credit card bills, medical bills, home ownership, moving expenses, and educational expenses. Although not critical to overall patterns the research acknowledged ambiguity in distinguishing expenditures for economic mobility to those for making ends meet. Also, they recognized the limitations of economic mobility expenditures in meeting recipients' long-term needs.

Smeeding et al. (2000) contributed to the literature by examining how the EITC influences recipients' expenditure patterns. Nearly 65% expected to use the refund for spending on consumption spending and 70% indicated they plan for economic and economic mobility uses. Recipients could indicate multiple uses of refunds. By a 75% to 49% margin those expecting a refund were more likely to indicate economic and economic mobility than were those who were not expecting a refund. Investing in automobiles and education were the most often indentified economic mobility uses. The researchers determined that the implication is that those who expect a refund will more likely use it for long-term purposes. Families with more children were less likely to specify an economic mobility use and more likely to indicate that they expected to use the credit for consumption spending. This pattern of consumption reflects needs of larger families.

Romich and Weisner (2000) undertook a qualitative study of households receiving the EITC in Wisconsin to better understand how families viewed and used EITC refunds. The study explored why families prefer a lump-sum EITC refund instead of advance EITC payments, a series of payments throughout the year that require the cooperation of employers. The study addressed three questions: (a) what are low-income families thoughts and decisions when filing their taxes; (b) how do low-income families allocate their tax refund between savings and consumption?; and (c) how, if at all, does information about tax credits and tax refunds influence work participation, planning, and consumption throughout the year?

Romich and Weisner (2000) used a random sample of households from a community-initiated antipoverty program called the New Hope Project. From the 1,357 households in the New Hope Project, a sample of 60 households with children was selected for the study. Data gathered from interviews included family background, work history, education, religion, childcare, and life goals. Qualitative data included studying household's debts, assets, and sources of income. Specific to the EITC, household members were asked about their knowledge, use and preference for a lump-sum EITC refund.

Romich and Weisner (2000) found that EITC recipients viewed the use of lump-sum refunds differently from the use of earned income. Since earned income is often not sufficient to purchase furniture, children's clothing, or a car, EITC refunds were used for these purposes. They also found that EITC recipients put part of their EITC refunds into bank savings accounts. They found that savings did not stay in bank accounts over the long term as EITC recipients stated that household consumption needs (e.g., rent, groceries, and clothing) throughout the year resulted in the withdrawal of funds from savings accounts.

Welfare and poverty. Within the United States tax and welfare systems the EITC plays a vital but vague role. Congress and the administrative branch have typically regarded the welfare and tax systems as discrete. Even though policy makers have treated these systems as discrete they have sought to modify the EITC with practically each major tax and or welfare reform program since its enactment in 1975.

Policy effectiveness of the EITC can only be evaluated if its fundamental goals and objectives are understood. Regrettably political leadership's intention of the EITC is subject to debate and its legislative account offers only mixed insight (Steuerle & Wilson, 1987). The ETIC is a component of the welfare system, a means to lower the taxes of certain low-income families, a counterbalance to Social Security taxes for low-income workers, or a means to lift people out of poverty?

The significant expansion of the EITC particularly in the last ten years might have been a factor in the decline in the bipartisan support that has long distinguished the credit (Holt, 2006). Some allege that the EITC has become a second tier of welfare that no longer has any link to refunding taxes paid by low-income workers. Others cite alarm regarding the credit's hidden marriage penalties, and work disincentives, alleged failure in its targeting of poor families, and the program's considerable costs.

In its early years, the EITC was "considered by many as part of an overall welfare system" (Howard, 2007, p. 105). An EITC expansion was an important part of President Carter's welfare reform effort. The EITC was perceived as a way to provide additional work incentives for households mainly with dependent children. A good percentage of these households were likely to be penalized with high implicit tax rates due to involvement or potential involvement in welfare programs such as AFDC. The EITC tax credit was supported as a means to limit the work disincentives confronted by welfare recipients.

Another vital role the EITC provides is that it reduces the amount of individuals on welfare. A criterion to receive the EITC is that a person must work. Therefore, the EITC offers an inducement for an individual to go from welfare to work (Ventry, 2001). The EITC has been credited with as much as one third of the reduction in the welfare rolls between the years 1993 to 1999 (Grogger, Haider, & Klerman, 2003). Research performed by Dickert, Hauser, and Scholtz (1995) estimated that 7% of participation in the AFDC and Food Stamp programs decreased because of the 1993 expansion of the federal EITC. This equates to more than half a million families that were motivated to leave welfare due to the EITC (Maryland Budget and Tax Policy Institute, 2000*).* Another EITC unique feature is that it is available to both individuals with and without children and families as well. The majority of welfare programs are offered only to single mothers.

An added EITC feature is its mitigating effect on the reduction of benefits as welfare recipients earn higher incomes. By receiving the EITC a person is not prohibited from receiving welfare assistance as typically there is a high benefit loss in welfare assistance as earnings rise. Johns Hopkins University's Moffitt (1992) established that net wages are considered when welfare recipients make work decisions. Welfare recipients do not have additional disincentives for work when they claim the EITC.

The EITC is easier to apply for than traditional welfare programs as the EITC is administered through the IRS. There is one form that is submitted with a person's tax return. Traditional welfare programs involve a person going to a welfare office, meeting with a caseworker, and filling out an application for assistance. The welfare application has to be approved and goes through periodic reexaminations, typically at 6 moth intervals. (Alstott, 1995). The EITC requires no process of application, travel or approval. If a person is eligible to receive the credit, it is then included into their yearly tax return. There is a significantly higher participation rate for the EITC than that of those eligible for welfare. EITC recipients might favor the simplicity at which they can claim the EITC as contrasted to welfare assistance programs.

There are advantages to using the administrative tax system to advance welfare policy goals. The system is already in place and participants that receive the EITC can easily be identified through tax data. One key drawback is that not all pertinent data is provided on tax forms. In addition, the tax definition of a household may not be appropriate for a welfare program. The former for example, may count numerous individual taxpayers as a single household (Alstott, 1995).

Welfare programs typically employ monthly or quarterly reporting, whereas the EITC is on an annual accounting period. Therefore, the EITC is not typically useful for emergency needs. Although the EITC has an advanced payment option through income tax withholding tax rate adjustments, few tax payers use that option. The IRS estimated that for 1983, only 5,700 of the more than 5 million EITC filers selected the advanced payment option. In 2007, 22.4 million filers received the EITC, but advanced EITC payments were estimated at less than 1% or approximately 127,000 (GAO, 2007).

Despite the EITC differentiation from customary welfare programs, longer accounting periods are a valuable method for targeting a larger proportion of assistance to the chronically poor (Steuerle & McClung, 1977). A longer accounting period also correlates benefits in a method comparable to asset tests in a welfare program.

The EITC is more similar to earnings subsidies than to welfare benefits, which typically decline with increasing income. By using the annual accounting period, part-time or part-year workers may have an increase in the effective rate of EITC per hour but not a decrease. Thus, a worker earning $6.55 an hour working full-time gets the same EITC as a worker earning $12.50 an hour but only working part-time. The EITC subsidy per hour is higher for the part-time worker making a higher per hour wage than for the full-time lower-wage worker.

Moreover the EITC causes marginal work disincentives over the phase-out range. In 2008, the EITC phases out over the range from $12,050 to $18,750 for a married couple with two or more children. Think about the incentives in front of a family of four with income of $22,000 – just higher than the poverty level estimated at $21,910 in 2008 (HHS, 2009). By earning a single dollar more, the family's income tax increases by 15 cents and their EITC decrease by 10 cents. The effective marginal income tax rate is therefore 25% for the extra dollar earned. Thus the EITC raises the effective marginal tax rate on earned income by 10 percentage points over the phase-out range. The net effect of the EITC on work incentive is probably positive, but trade-offs are certainly created and should be considered.

Based on earnings from employment the EITC provides low-income workers additional income which can be significant. This leads to the question; does the EITC affect decisions regarding work? Research strongly indicates that the EITC has a potent effect in rising employment among single female parents (Meyer & Rosenbaum, 2001). This finding is consistently strong spanning all of the studies that have examined this matter. Research on the effects on those already in the workforce is mixed and less convincing.

In theory the EITC can affect two features of labor supply: participation in the work force and how many hours worked. For some low-income workers, the added income the EITC offers creates a positive participation effect past what wages singularly can provide. How the EITC affects the number of hours worked depends, in part, on the benefits phase the worker is in within the EITC structure.

Through the phase-in range of the EITC, the work incentives are positive. According to Hotz and Scholz (2003) as the EITC increases with additional earnings, workers are encouraged to earn more, and consequently work more. In the EITC plateau range, the effect of the credit on work amount is neutral as no additional compensation is provided by the EITC. In the phase-out range, the EITC may offer a reason not to work additional hours as every additional dollar earned reduces the amount of the EITC. Therefore, the overall EITC effect on labor supply may have opposing outcomes of increasing and decreasing work amount.

Due to income levels and structure where the credit phases out, it is less important to part-time and part-year workers without children who receive the lowest benefits. In 2008, a taxpayer with no children was eligible for just 15% as that of a family with one child, and less than one tenth the benefit of a family with two children. In addition, the 2008 benefit amount of $438 for a worker with no children does not offset the federal taxes of a worker at the poverty threshold, and does not supplement income as is a purported intent of the credit. Therefore, due to the EITC there is little incentive for workers without children at the poverty threshold to work more hours.

As an example, the U. S. Department of Labor, for statistical purposes, uses less than 34 hours per week to classify part-time workers. Hotchkiss (1991) defined part-time work as less than 40 hours for white collar workers and less than 35 hours for blue collar workers. Given the 2008 Fair Labor Standards Act federal minimum wage standard of $6.55 per hour (U.S. Department of Labor, 2009) and using the maximum part-time hours worked, an individual would earn $11,580 for a 52-week, work year. This worker would owe $668 in federal taxes net of the EITC. After paying their net federal taxes they would then be living below the poverty threshold of $11,201 (U.S. Census Bureau, 2009).

A uniform observation from the many studies the EITC has on the labor supply effect is that the credit raises employment among single mothers (Meyer, 2002). Generally, the labor force participation rate for single women with children increased by 2.8% from 1984 to 1990, and by 6.1% for the least skilled of these workers (Eissa & Liebman, 1996). Another study found that the EITC expansions implemented in this period were responsible for more than half of the increase in single mothers' employment between 1984 and 1996 (Meyer, 2002). Research done by Liebman (1997) noted that the labor force participation rate of single women with children rose from 73% to 82% from 1984 to 1996 and that 60% of this increase was due to the EITC. More pointedly, the EITC encouraged 20% of previously unemployed single women with children to start working.

Another study between 1993 and 1999 attributes more than 30% of the rise in employment among single mothers to EITC expansions (Grogger et al., 2003). Meyer and Rosenbaum (2001) found that the welfare policy changes had less of an effect than did the expansions in the EITC. Ellwood (1999) found that the expansions in the EITC had the second highest effect and changes in welfare policy the highest effect in increasing the employment of single mothers during the period 1992 to 1996.

The expansion of the 1993 EITC and its impact on net wages has been estimated to have had a 3% increase effect on the labor force participation rate of single parent families (Dickert et al., 1995). In addition, affected a 15% increase in the net wages of low-income, single parents. These effects are complimented by the inclusion of state and local EITC programs. Studies evidencing increased work, workers with two or more children are also prevalent. As noted above, this corresponds with a significant employment increase among single mothers with two or more children which is more than other family types (Meyer & Rosenbaum, 2001). It is estimated that the EITC accounted for the 84% increase in the employment rate of single mother welfare recipients in California indicating strong labor force participation (Hotz, Mullin, & Scholz, 2005).

While researchers have established significant EITC effects on single mothers' labor force participation, there has been little evidence that those already in the labor force work more hours (Eissa & Liebman, 1996; Meyer, 2002). Furthermore, researchers have determined that the EITC has allowed one partner of married couples to stay home by the EITC augmenting the wages of the working spouse (Eissa & Hoynes, 2004; Ellwood & Lieman, 2001). The expansion in single mothers' labor supply related to the EITC appears to offset any reduction among married couples (Ellwood, 1999; Hotz & Scholz, 2003). It can be argued that the EITC may provide reductions in the labor supply that are actually beneficial to both families and society. For instance, more time can be spent with their children when a working parent can afford to reduce hours worked (Alstott, 1995).

Poverty. 1998 Census data shows that the EITC elevated 4.8 million people above the poverty line, counting 2.6 million children (Levitis & Koulish, 2008). These census statistics illustrate that the EITC now raises more children out of poverty than every other program or category of programs. The EITC raises more children out of poverty than "all other means-tested benefit programs, including food stamps and housing subsidies, combined" (Porter, Primus, Rawlings, & Rosenbaum, 1999, p. 34). Upon review of a comprehensive list of EITC studies showed that the EITC reduces poverty among children by a 25%, reduces family poverty by 10%, and closes the poverty gap by 20% (Holt, 2006).

The Census Bureau estimated that the 2005 poverty rate fell to 10% or approximately 2% points below the official rate when measured by disposable income that included all government cash transfers, but not Medicaid or Medicare cash transfers or related taxes paid, included EITC receipts, work expenses but omitted child care expenses (U.S. Census Bureau, 2006). Approximately half of this reduction was accounted for from the after-tax value of the EITC.

The EITC was structured so that a family of two with one parent working year-round and full-time earning the minimum wage would be living above the poverty line. This was when, the EITC, wages, and food stamps are added and payroll taxes are subtracted. Taking the same factors into account a family of five or more still remain well below the poverty line. While the majority of proposals to increase the EITC for families with three or more children do not raise these families above the poverty line, an enlarged EITC would decrease the amount by which such families fall below it.

The EITC is a powerful tool for lowering the number of people, both children and adults, living in poverty. A study of 27 rural and urban areas nationwide by the Brookings Institution found that the EITC raised the annual incomes of families on average $1,700 or 13% (Berube, 2003). This increase in income raised both individuals; many are children, and families above the poverty line. With the inclusion of state EITC programs, the number of people, children and families, raised above the poverty line increased noticeably.

An important feature of the EITC is that only persons working and earning an income are eligible for the EITC. Unlike alternative assistance programs the tax credit encourages work. Furthermore, by claiming the EITC the ability to claim assistance from other welfare programs such as SSI, TANF, Food Stamps, Medicaid, or low-income housing is not limited. So, as a person transitions to work and their income increases, the EITC supplements their income for up to 40 cents per dollar earned, while other entitlement programs assistance declines.

Economic theory proposes that the amount of hours people work who claim the EITC would decline for two reasons. First, the EITC increases income so there is a disincentive to work additional hours that could produce the highest level of the EITC. Second, the EITC phase-out range lowers the amount of the EITC which operates like a *tax* on earnings. There are a number of studies on this issue and have found that the EITC has a minimal effect on the number of hours worked (Ellwood & Liebman, 2001; Hoffman & Seidman, 2003; Hotz & Scholz, 2003; Keane & Moffitt, 1996; Meyer, 2002).

Studies indicate that low-income workers are not aware of the work disincentives because the EITC is unseen for most of the year as opposed to traditional incentives in income assistance programs, tax withholdings, and overtime pay (Liebman 1997; Lipman & Williamson, 1994; Romich & Weisner, 2000). Lipman and Williamson (1994) note that even if workers were more cognizant of the EITC disincentives it is uncertain if they would have the aptitude to determine the amount of hours they should work. Even so, if the behavioral effects of the work disincentive of the EITC phase-out are insignificant the inequity of lower-income taxpayers incurring a higher marginal tax rate than higher-income taxpayers should be addressed (Cherry & Sawicky, 2000).

Economic mobility. In an economic and social mobile economy, it is the American ideal that individuals and families have the opportunity to raise their private incomes, wealth and human capital. Many associate this American ideal with the pursuit of the American Dream (Carasso et al., 2008). Education, saving, and work experience improve the opportunity for increasing economic mobility. These goals are often beyond the grasp of low-income workers because of limited skills, limited personal finances and the lack of access to sufficient credit. To achieve these goals, many tax expenditure and federal spending programs intend to enhance economic mobility and economic security (David & Smeeding, 1985).

Increasingly, using level of income to define poverty and well-being is questioned. The phrase *asset-based policy* was introduced in response to the predominantly income and consumption policies of industrialized countries (Schreiner, Clancy, & Sherraden, 2002). Asset-based policy is centered on the accumulation and investment for long-term development. Asset-based policy is a complement to and not a replacement of income-based policy. The term *assets* have many possible meanings. In general, these include work-based income assets, financial assets, and human capital (Schreiner et al., 2002).

Asset-based policies focus on the way in which economic mobility is achieved. Asset definitions take account of earnings to maintain oneself and families throughout a lifetime of work: skills and knowledge to increase those earnings; retirement savings; insurance against illness, economic loss, and disability; additional financial resources to supplement and enhance the former; plus a network of relationships that encourages and empowers (Beeferman, 2002).

Income assets are tied to employment that, for the majority of households, provides the income and benefits to cover daily requirements, plus contributing to building financial assets. Financial assets include cash, checking and savings accounts, investments in bonds and stocks, and equity in property that provide opportunities and empower people (Beeferman, 2002).

Financial assets aid families in surviving crisis, plan for retirement and secure credit on reasonable terms (Beverly et al., 2008). Individual skills, knowledge, and experience often relate to human capital. Maintaining and building of human capital is a lifelong practice and those that lack the basic *hard* and *soft* skills and abilities are at a significant disadvantage.

America has a long history of asset building policies dating back to the 1800s. The Homestead Act provided a start for pioneers with a stake in land ownership in the western frontier (McPherson, 1998). After World War II, the Servicemen's Readjustment Act of 1944 (GI Bill) provided a generation to receive an education, purchase homes, and start businesses (Kiester, 1994). Today, tax laws assist many to become homeowners, keep more earnings through tax deductions, and savings through Individual Retirement Accounts (IRA) and 401K plans for retirement security. The opportunity to attain economic and social well being through asset building is largely reserved for more affluent families who are able to take advantage of federal asset based tax policies (Woo, Schweke, & Buchholz, 2004).

In a study reviewing U.S. federal economic mobility expenditures in the years 1980 through 2006, and projected to 2012, Carasso et al., (2008) found that 72% of the $746 billion (5.7% of U.S. GDP) mobility expenditures were delivered mainly through savings incentives, aids in asset accumulations, and employer-provided work subsidies. These expenditures benefited largely middle and higher income families and frequently excluded lower-income families who probably would benefit the most from economic mobility programs. The remaining

28% of federal mobility expenditures were funneled through programs that tend to support lower to moderate-income individuals like child health and well being programs, Pell grants, and work support initiatives like the EITC.

An increasing body of research examined private and public policy programs designed to assist asset accumulation by low-income households (Bucks, Kennickell, & Moore, 2006; Duflo, Gale, Liebman, Orszag, & Saez, 2005; Retsinas & Belsky, 2005). In addition, scholars have considered utilizing the tax system to attain economic mobility (Seidman, 2001; Smeeding, 2001). Utilization of the tax system has potential for at least two reasons (Beverly & Dailey, 2003). First, federal income tax credits such as the EITC, for families with children, and the child tax credit have expanded considerably in recent years. Low- income working families can receive tax refunds as high as $2,000 to almost $5,000. Secondly, research demonstrates that many families view tax refunds not as income but as assets. For instance, research suggests that families are less likely to increase consumption than to use tax rebate checks to pay off debt or increase savings (Saad, 2003; Shapiro & Slemrod, 2003).

Research examining EITC recipients' consumption patterns found that a sizeable percentage of smaller families use at least a portion of their EITC for upward economic mobility purposes. Such uses acquired or repaired an automobile for work related activities, made equitable repairs on a home, or paid tuition for education or training. As the number of children in a family increases, the percentage of families that use their EITC for such purposes declines significantly. Researchers have determined that larger families have a larger need to use their EITC to cover basic needs. Consequently, larger families have less ability to use their EITC to raise their income status, escape poverty, or improve their overall economic situation (Smeeding et al., 1999).

Tax refunds including the EITC are a financial benefit for many families and a tool for longer-term savings and improving economic mobility. Most families capable of affording long term savings are not those getting the largest EITC payments. The larger EITC payments are characteristically targeted toward families living below poverty earnings. Short term cash requirements and preparing for emergencies such as a job loss or automobile repair tend to restrict the use of the EITC. Using the EITC to fund structured savings tools like Individual Development Accounts are often impossible (Smeeding, 2001). Results from a program that linked tax refunds to no minimum, no fee balance savings accounts supports this view. Of those opening accounts with their tax refunds, 41% of those quickly spent those dollars, and just 14% used the accounts to create a means for savings (Beverly et al., 2004).

Beverly et al., (2004) examined a pilot program offering low-cost bank accounts to unbanked EITC families in Chicago. They defined *unbanked* families as those who do not have a checking or savings account at a bank or credit union. National data suggest approximately 10% of U.S. households do not have bank accounts (Aizcorbe, Kennickell, & Moore, 2003; Hogarth, Lee, & Anguelov, 2003). Being banked opens the door to savings, access to credit, home ownership, and a variety of other financial services for economic mobility and building assets (Bates & Dunham, 2003).

Beverly et al. (2004) used data collected from Chicago families participating in the Extra Credit Savings Program from January 2000 to May 2001. EITC recipients were offered free tax preparation services and bank accounts at ShoreBank in Chicago. Eighty-six participants opened no-minimum balance, no-fee savings accounts and prearranged for their 1999 federal tax refunds deposited straight into these accounts that earned 2.5% interest. Of the participants, 61% were unbanked at the time of enrollment. As an incentive to keep funds in the account, participants were offered a 10% bonus, up to $100 on all funds in the account on December 30, 2000. Enrollment was voluntary and both banked and the unbanked were allowed to participate in the program.

Data collected by Beverly et al. (2004) included demographic and tax information, monthly participant bank statements, and a survey upon enrollment. The researchers conducted a follow-up telephone survey with 34 participants and in-home qualitative interview with nine others. The researchers found that providing a bank account and a $100 incentive did not lead to substantial savings. At the end of four months, 43% of participants had deposited additional funds and 7% had balances greater than their refund amounts. During the same period 28% had less than $5.00 in their accounts. In interviews many of those who did not save their tax refunds stated, however, that the accounts helped them spend more slowly and with more thought.

Their statistical analysis indicated that unbanked individuals were no more likely than banked individuals to enroll in the savings program. Qualitative data indicated that the unbanked did not have a strong desire for a bank account. Participants stated that the combination of electronic filing and direct deposit of refunds was a key reason to take part versus using fee-based refund anticipation loans to receive funds quickly. The unbanked did recognize that bank account ownership provided access to other financial services

Caskey (2001) explains that Individual Development Accounts (IDAs) are very useful in providing a structured opportunity to save for low-income workers with children. The American Dream Demonstration, a research project examining 14 IDA programs around the United States from the years 1997 to 2001 with continued research through 2005, showed that income is only weakly associated with savings outcomes as the poorest study participants saved approximately the same amount as those who were not poor and the poor saved a higher proportion of their income. Findings suggest public policy should not dismiss the ability to save by the very poor (Schreine et al., 2002). Studies also show that low-income families face critical financial issues from the use of alternative lending vehicles stemming from barriers to mainline financial systems (Belsky & Calder, 2004; Carasso & McKernan, 2006; Retsinas & Belsky, 2005; Sullivan, 2005).

The EITC can also function as an affordable housing device which is another economic mobility indicator. One measure of income sufficiency is the amount of income that a household allocates toward housing. In 1999, approximately 25% of EITC eligible families had severe housing cost burdens. This means that their housing requirements were more than half of their gross income. After including receipts from the EITC, the occurrence and severity of the financial burden amongst these households was reduced by an overall 15%, and ranging from 25% to 33% for families with children (Stegman et al., 2003).

Robles (2005) provided evidence of the need for culturally relevant outreach and program delivery for asset building programs for EITC recipients. Robles used survey data administered in contiguous counties in Texas, New Mexico, and Arizona bordering Mexico from respondents of low-income Latino and working poor families. Data was collected through community based organization partners within the Southwest Family Asset Building Group. Fifty-seven percent of respondents surveyed answered the Spanish language questionnaire and 43% the English language questionnaire. Of the total 6,627 tax returns the Southwest Family Asset Building Group assisted, approximately 65% received the EITC amounting to $7.8 million. The most telling research outcome was the lack of financial literacy of respondents and that 92% of all respondents had never heard of IDAs.

The EITC provides recipients an opportunity to build assets and improve their economic mobility, even if just a minority is able to do so. A Milwaukee survey from free tax preparation site users found that 7% of EITC recipients expected to use their credit by investing in themselves or their children, an additional 7% expected to save for a major expenditure such as a house (Goldberg & Percy, 2005). The prepayment of a few months rent or putting funds aside for unexpected emergencies is also considered an investment in ones family's economic mobility through stability (Romich & Weisner, 2000). How the EITC is used by families indicates that asset building and improving economic mobility could be interpreted more broadly to include recipient strategies that are implemented to avoid future indebtedness. A thorough analysis of EITC recipient's strategies may help identify those recipients that are most likely to achieve longer-term savings goals.

Program Assessment and Implementation

American political leadership through legislative action allocates significant budgetary funds towards economic mobility each year. In 2006 alone, approximately $746 billion was expended in economic mobility of which $205 billion, or 27%, was channeled through programs that favored low-income workers. Despite the magnitude of the economic mobility expenditure, few if any, budget assessments are made to determine how well federal programs, individually or taken together, actually promote economic mobility (Carasso et al., 2008).

The EITC plays a significant role in policy makers' economic mobility allocation targeted toward low-income workers. In 2007, the EITC federal government budgetary costs were estimated at $49.7 billion and almost 23 million taxpayers benefited from the EITC (Strudler & Parisi, 2009). Approximately 80% of the claimants received EITC benefits via IRS tax refund checks in 2007, and the balance went directly to reduce claimants' tax liability (Treasury, 2007). The problem is that inadequate information is known about the impact of the

EITC on the individuals who receive it (Romich & Wiesner, 2000). An EITC program assessment would provide valuable information to policymakers about the effects of the EITC.

Public sector organizations operate in a competitive environment of economic, political, and social forces with pressure to operate in a more businesslike manner (Newcomer, 2007). Legislation and programs intended to improve government quality, accountability, and effectiveness are introduced and adopted at all levels of government (Popovich, 1998). Congress's record of confidence among the public is marginal at best, with trust in government declining severely in recent years. In 1964, 75% of Americans said that they trust the government in Washington to do what is right *just about always* or *most of the time* and in 2006 the results had dropped to 30% (Hart, 2006). As a consequence, public-sector organizations are engaging in a number of efforts focused on developing greater public trust and confidence in government.

The political domain is headed by elected representatives who pass legislation and law for the public good. In turn, implementation of programs and laws are delegated to administrative agencies (Frederickson, 1997). Administrative agencies are legislated into existence, giving the agency life until it is legislated out of existence. Although budgets at all levels of government are reviewed and adopted annually, the absolute elimination of a public agency is rare (Btmber, 2005). The win-lose dynamics related to passing legislation, mediating competing interests and political trade-offs, and managing scarce resources can conflict with values of efficiency. Improving organization effectiveness is a value that is often at odds with the political process and more likely to be aligned with administrative values (Cummings & Worley, 2005).

Assessment of tax and social policy programs (e.g., the EITC) involves judgments about whether programs have been carried out as intended and are yielding desired results. According to Cummings and Worley (2005), there are two discrete forms of policy program evaluation. The first is intended to direct the execution of a program and the second is to evaluate its overall impact. For example, the IRS's efforts to curb EITC non-compliance would be considered part of the implementation process. Through empirical evidence, the impact or results assessment process would address the EITC program goals and objectives of encouraging families away from welfare and towards work, raising full-time workers and their families out of poverty, and improving low-income workers economic mobility.

After implementation of the EITC, evaluation would involve assessing whether these results occurred. This assumes that the EITC had been carried out as planned and that the key point of evaluation is to assess its effects. To realize the goals of the EITC requires significant changes in EITC recipients' behaviors and ways of thinking, but the EITC program only offers a broad prescription for how these changes are to occur (Hotz & Scholz, 2003). The IRS has addressed the implementation of the EITC but not its evaluation. As stated by the IRS, it has a "strong planning process closely linked to its budget process, but it has not yet used outcome information for this program to set performance targets that allow it to demonstrate results" (Treasury, 2009, p. 351).

Program assessment. For more than 60 years Congress and the administration have undertaken many efforts to manage and analyze the federal government's performance. These efforts are often referred to as performance budgeting, performance management, program evaluation, or strategic planning (Brass, 2004). Federal agencies and programs work to accomplish a broad range of diverse missions and goals and employ any amount of public policy formats, including tax laws, federal spending, tax regulation and expenditures. The EITC program is no exception. Evaluating the performance of the EITC has historically proven to be difficult and often controversial (Blank, 2002).

The outcomes of the EITC are fundamentally difficult to measure. On a macroeconomic level there is frequently a time lag between when the EITC refund is received and when the eventual results are available, if at all. It may also not be possible to measure the EITC program outcomes as promptly as government statutes require (Newcomer, 2007). Absent this data, it is almost impossible to determine if the program is successful or not. Participants in the U.S. political system are often at odds about public fund expenditures, objectives, goals, missions for public programs and on the standards for evaluating success. One individual’s idea of success may be another’s illustration of waste and abuse, and there are multiple definitions of what *success* might entail.

Even if agreement is reached regarding the EITC’s goals and evaluation criteria, it is difficult to separate the discrete influences that other social welfare programs, demographic changes, state and local governments, economic trends, etc. have on key outcomes. As the U.S. GAO (1998a) has reported, vigilant planning and time-consuming discourse are required to aid performance measurement for federal programs in which there is limited control by the federal Government. Cost–benefit analysis necessitates being able to judge whether benefits that are attributed to a program would have taken place if the program itself had not taken place. These judgments become progressively more difficult as the program is representative of a smaller factor while other factors have greater measurable influences on outcomes (Clements, Chianca, & Sasaki, 2008). Outcomes also may not be adequately evaluated owing to the lack of capacity, political commitment and attention, or resources (GAO, 2004).

Prior to the enactment of the EITC, the U.S. Government initiated a substantial assessment study beginning 1968 and ending in1980, in which four, multi-year, guaranteed income also known as negative income tax (NIT), controlled experiments were conducted. The experiments ultimately studied 8,700 people as subjects (Murray, 1994) and expenditures totaled $225 million (1984 dollars), while $63 million represented direct payments to families (Robins 1985); accountings vary. The experiments were designed to identify the economic factors affecting human behavior and to explore means of eradicating poverty from American society. These experiments began during a time of growing concern for economic rights, when the elimination of poverty was the stated goal of the administration, and the policy and political actors were debating a guaranteed income as the vehicle for social policy reform (Nadasen, 2004). In a historical context, the NIT concept was an immediate predecessor to the enactment of the EITC.

The primary goal of the NIT research was to test the results of a guaranteed income on the recipients work practices thereby gathering information on the costs and feasibility of such a program (Standing, 2005). This research was the first large-scale social experiment to utilize randomly assigned human subjects and place them into control and treatment groups (Hum & Simpson, 1993). Several social scientists have labeled the NIT experiments, experiments in the proper way to conduct experiments (Robins, Spiegelman, Weiner, & Bell, 1980).

The NIT experiments provide a cautionary note for any contemplated EITC assessment. In excess of 350 scholarly articles have been written on the NIT experiments, and decades later there still is no definitive agreement on what the experiments meant for policy (Widerquist, 2005). The results have been quoted by both opponents and supporters regarding a redistribution of income through an NIT. According to Williams (1998), there is an increasing abuse of policy facts in the political environment which weakens knowledgeable consent amongst the people and in the end American democracy itself. Williams adds, “[o]ur political system has been deteriorating because people in senior positions, including the highest officials in the White House and Congress, have been propagandizing citizens who often do not perceive the nature and extent of the subterfuge”(Levine et al., 2005, p. 102).

The significance of the NIT experiment results have been argued by scholars and misunderstood by politicians and the media (Standing, 2005, p. 504). There is a normal complexity of presenting difficult technical results to a lay audience concerned with bottom line results. Assessment is concerned with providing feedback about the progress and impact of policy programs and care should be given to selecting appropriate variables and designing good measures (Levine, 2004). One of the original researchers of the NIT experiment, Robert Levine noted that even with appropriate variables and specific measures, there were early accusations directed at the NIT experiment (Levine, 2004). Levine provided the example that critics accused the government of funding political power. Other criticism came from community action groups who criticized from the left and congressional groups who criticized from the right (Levine et al., 2005).

Regardless of clear political support for program assessment, there remain a number of difficulties facing agency program administrators determined to devise and apply useful program assessment systems (Newcomer, 2007). Appropriate assessment measurements vary across diverse agency programs which prompted the OMB to encourage agencies to be creative in developing their own measures. For agency program administrators who are accustomed to following OMB directives this is an uncertain and daunting task.

A second difficulty arises from the opinions and capabilities of OMB staff as well as agency administrators. Shifting to results orientated assessment entails a change in perspective and knowledge set. In fact, practice throughout governmental jurisdictions across the world has proven that performance measurement offers managers a complex analytical, communication, measurement, and political challenge (Fischer, 1994; Newcomer & Downey, 1998). A third difficulty arises when administrators feel that they do not have sufficient authority or the flexibility to modify their management practices (Cummings & Worley, 2005). Although some Congressional members have supported program assessments, only sporadic interest has been displayed by the powerful appropriation committees (Newcomer, 2007). Finally, the lack of coordination among legislative and executive actors requesting assessment data results in duplicative and contradictory efforts. Requestors of data often underestimate the resources required to support and design useful assessment measurement systems (GAO, 2005).

Assessment considerations. Implementing and designing an assessment measurement system that provides data on the EITC and how well it tracks against policymakers' goals and objectives is difficult politically, and resource intensive. As previously mentioned, there are four considerations to program administrators in assessment evaluation: complex analytical, communication, political, and measurement. These considerations may be regarded as barriers that EITC program administrators must clear while attempting to utilize assessment measurements to improve program performance (Halachmi & Bouckaert, 1996).

Communication considerations. Perhaps the most important step in the assessment process is effective, clear communication between relevant stakeholders; program staff; legislative committees; budget officials; community organizations; research community; the public; and other policy and political actors (Halachmi & Bouckaert, 1996). Securing agreement among key stakeholders regarding EITC goals, objectives, and assessment measures are essential to implementing an assessment measurement system. The design and implementation of an EITC assessment measurement system will require multiple participating entities, so effective intra-organization communication is crucial (Halachmi & Bouckaert, 1996). The U.S. Treasury Department has oversight of EITC evaluation. Currently the IRS works on strategic plans and performance measures related to EITC non-compliance but so far no department is chartered with EITC program assessment responsibilities (Treasury, 2009).

Ensuring effective communications while charged with performance measurement across government presents daunting communication challenges. Complex horizontal and vertical communication pathways in government agencies render clear and concise communication more difficult. Assessment data should be summarized in ways that enable stakeholders to understand the information and draw action implications from it (Morse & Struyk, 2006). Several characteristics of effective communication of data have been described in literature inclusive of the following nine properties: relevant and meaningful; understandable and readily interpreted; descriptive and linked to real behaviors; verifiable in describing outcomes; timely and linked to stakeholders' motivations; limited so as not to overwhelm; significant; comparative to reference benchmarks; and un-finalized to spur further diagnosis and in-depth discussion (Huffington, Cole, & Brunning, 1997; Mohrman, Cummings, & Lawler, 1983).

Analytical considerations. For those charged with the development and execution of EITC program assessment, measurement will necessitate the ability to chart program logic precisely and to visualize suitable measurement outputs and outcomes (Wholey, Hatry, & Newcomer, 2004). EITC program performance is not without bias and waiting to be measured but is a socially created reality requiring program assessment (Berger & Luckmann, 1967).

Agreeing on what to measure "tends to be a political question" (Liou, 2001, p. 333). By clearly defining the logic behind a program might to some degree negate political influence and should take place prior to planning appropriate measures. Dialogue about what to measure has centered on EITC recipients non-compliance issues instead of outcomes and performance goals. Counting the number of credit recipients and amount of EITC is quite basic. A more fascinating and compelling issue arises when political and policy actors require the measurement of program outcomes, or results possibly as follows:

- Inputs: measures available resources and committed program funds to carry out legislative action in order to achieve program goals and objectives. These may include: staff, federal EITC expenditures and dispersements.
- Output: a tabulation, calculation or recording of a program activity or effort that can be expressed in a quantitative or qualitative manner, such as number of EITC recipients and amount of the EITC expenditure.
- Outcome: an assessment of the results of the EITC program compared to its intended purpose, such as number of families lifted out of poverty.
- Performance goal: target level of performance expressed as a tangible, measurable objective, against which actual performance can be measured; including a goal expressed as a quantitative standard, value or rate, e.g., improve percent of eligible EITC recipients receiving the EITC to 85% by 2010 or lift 5.2 million families out of poverty by 2012.

Program logic models are analytical tools that social scientists have long advocated for use in evaluating the effectiveness of public programs. Program logic models are especially useful for informing performance measurement deliberations (Newcomer, 2007). The program logic model is defined as a picture or graphic presentation of how the organization does its work and the theoretical assumptions underlying the program inputs and activities and their intended outcomes (McLaughlin & Jordan, 1999; W. K. Kellogg Foundation, 2004). The logic model and its processes facilitate thinking, planning, and communications about program goals and objectives and actual accomplishments. The program logic model components illustrate the connection between project implementation and intended outcomes, or results (Newcomer, 2007).

Program implementation describes what resources are needed to implement the program and planed actions. According to the W. K. Kellogg Foundation (2004), the program implementation activities consist of two steps that include the required resources labeled as program activities and inputs which represent the programs allocation of the resources. Inputs are the personnel, financial, community, and organizational resources available to a program. Program activities include the procedures, events, tools, actions, and technology that are a deliberate part of the program implementation.

Program results consist of the program's preferred results including outcomes, outputs, and results or impact. Examples of outputs may include levels, types, and targets of services provided by the program. Outcomes are the definite alterations in program participants' knowledge, behavior, status, and skill and level of functioning (McLaughlin & Jordan, 1999). Short and intermediate outcomes should be achievable within a 1 to 6 year timeframe (Newcomer, 2007). Encouraging families to move from welfare to work may be considered a short or intermediate outcome. Improving the economic welfare and economic mobility of low-wage workers is indicative of long-term outcomes occurring within about 7 to 10 years.

Figure 8 displays an example of a program logic model of the EITC program highlighting the basic factors explaining the problems the EITC program plans to address. It describes the issues the program will address, identifies the needs and assets related to the issues, and specifies why certain results are desired. For example, levels of political and public support for the EITC may recede if the cost to the government of welfare significantly decreases which can negatively affect the economic mobility of low-income earners.

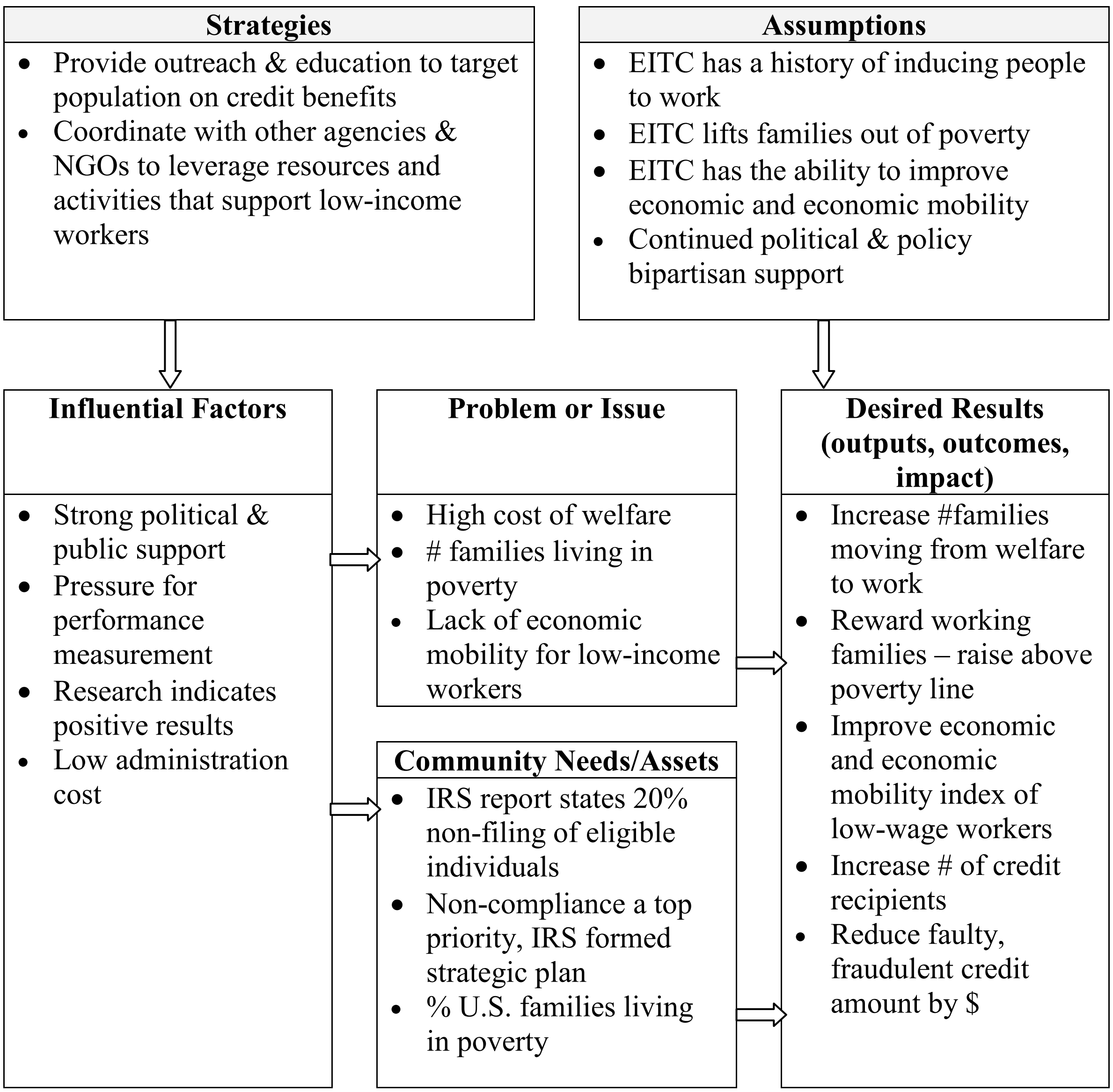

Figure 8. Program logic model: EITC as tax and social policy initiative.

Ongoing review, assessment, and modification can generate superior program design. Effective program success and evaluation depend on the basics of comprehensible stakeholder expectations and assumptions regarding why and how a program will resolve a particular problem, create new possibilities, and maximize valuable assets (McLaughlin & Jordan, 1999). The program logic model facilitates mutual understanding and attention to a programs methodology and goals linking activities to projected outcomes.

The 1993 Government Performance and Results Act (GAO, 1998b) states that agencies should apply regular studies to explore relationships involving program activities and outcomes. Performance assessment, even when consistently measured, does not address why programs are effective or experience low performance (GPO, 2002). Diagramming expected relationships among EITC program activities and outcomes can highlight vital questions needing additional study. By developing ample program logic models, researchers will be able to identify external factors that affect EITC program outcomes and long-term results. An example is that the economy both locally, regionally, or even globally may be a factor for low-income workers leaving the workforce and not a lack of their resolve.

Measurement considerations. A first step in the design of program performance measurement is to create the performance measurement team. Team members ought to have the analytical capacity and be able to validate the reliability and accuracy of performance data. After performance measures are developed they should be checked for reliability; i.e., usefulness, applicability, and completeness, etc. (GAO, 1999)

There are countless criteria that are practical for performance measurement. W. K. Kellogg Foundation (2004) utilizes the SMART Test to supply a fast indication for determining the quality of a specific performance measure: *S* represents whether the measure is clear and focused; *M* denotes whether it is measureable and can the measure be quantified; *A* represents if the measure is achievable, reasonable and credible; *R* reflects if the measure fits and is it cost effective; and *T*, if the measurement is timely and feasible within a specified time frame. Another test, the *Three Criteria Test* includes the satisfaction of three broad criteria including: strategic criteria, quantitative criteria, and qualitative criteria (Artley & Stroh, 2001).

A reasonably balanced and inclusive collection of measures ought to be applied to gather program performance in a way that is not excessively expensive, yet is comprehensive enough to avoid unintentional consequences. In fact, the U.S. Department of the Treasury has identified criteria to use in selecting appropriate measures and assist in reaching consensus on measurement goals. The categorical criteria follow three fundamental rules for performance measures applicable to all agencies under the U. S. Treasury Department including data criteria, measurement criteria, and measurement system criteria. The following summarizes the U.S. Treasury Department Criteria Test:

1. Data Criteria - Data reliability and availability can impact the selection and development of performance measures. The following should be considered:

- Availability – Is data available and can it be collected?
- Accuracy – Data should be sufficiently reliable without biases, exaggeration, omission, and errors. Data should also be verifiable and auditable.
- Timeliness – Data should be timely for evaluating program performance. How frequent and how current is the data are key considerations.
- Security – Privacy and confidentiality concerns have to be addressed.
- Costs of Data Collection – Is the data cost-effective, do the costs exceed the benefits from the collection of the data? Are there sufficient resources available for data collection including expertise, IT capabilities, or funds?

2. Measurement Criteria – The following should be considered:

- Validity – The indicator or measure should address program outcomes and results. Is there a logical relationship between the program and what is being measured, or are there significant exogenous and uncontrollable factors?
- Uniqueness – Does the information conveyed by one measure duplicate information presented by another measure?
- Evaluation – establish reliable benchmark data, standards, and alternative frames of reference. These should be used to interpret selected performance measures.

3. Measurement System Criteria – The following should be considered:

- Balance – Verify balance between input, output, and outcome measures, and productivity or cost effectiveness measures. Measures should be mixed to offset any significant bias in a single measure.
- Completeness –Confirm that all significant programs and major components are covered. Does the final set of measures cover the major program goals and objectives? It should also be considered to include measures of possible unintended program outcomes, particularly negative effects.
- Usefulness – Stakeholders should use the measurement system to effect change based on the analysis of the data. Stakeholders should have the resources to analyze the results of the system and measurement system personnel must be trained to use and interpret the data. Reports should be clear and concise.

Political considerations. From a political viewpoint, the EITC program is comprised of loosely organized individuals, groups, and agency alliances having different interests and preferences (Pfeffer, 1982). For example, low-income workers may want government sponsored savings vehicles (IDAs) designed for the poor. Community development organizations may want more EITC related education directed at eligible taxpayers who do not file for the EITC. IRS auditors might be interested in developing tax return profile software used to flag EITC filers for non-compliance audits. Political actors may want definitive performance results testifying to the success of the program meeting its goals and objectives. These separate coalitions compete for resources and influence, preserving or enhancing their self interests, while achieving a satisfactory balance of power to maintain loyalty and attain overall effectiveness (Artley & Stroh, 2001).

Attempts to alter the status quo through program assessment may threaten the balance of power between separate coalitions ending in struggles and political conflicts (Nadler, 1987). Individuals, special interests, and political actors will be apprehensive about how the assessment results may alter their own influence and power, and they will respond accordingly (Artley & Stroh, 2001). Several will lose influence while others will gain power. Those whose position is endangered will respond defensively and look to preserve the status quo. For instance, political actors who support the EITC may try to present compelling evidence that the goals and objectives of the EITC are being met and that further program assessment is unnecessary, costly, and recommend only minor modifications. Conversely, those political actors who will add power from significant modifications to the EITC will lobby heavily for them, possibly pushing for program assessment to legitimize the change. Accordingly, program assessments are often accompanied by competing interests, political turmoil, and distorted information (Newcomer, 2007).

Sufficient political capital is required for performance measurement efforts to be successful (Newcomer, 2007). Influencing key stakeholders for their involvement throughout the planning and measuring processes is critical. There are at least three major strategies used to influence stakeholders (Greiner & Schein, 1988). A straightforward approach would be to determine the needs of particular stakeholders and present information about how the performance measurement activities and results can benefit them. Another strategy might include using social networks to gain support for adding performance measurement (Artley & Stroh, 2001). Social networking might include, for example, meeting with powerful groups and forming alliances to support specific changes. This would likely involve ensuring that the interests of separate coalitions are considered in the assessment process. A less used strategy involves circumventing organizational structures and procedures to make changes (Greiner & Schein, 1988). Existing political and agency relationships can be barriers to change, and circumventing them may be more effective and expedient than removing them. This strategy requires a champion with charisma, reputation, and professional credibility to avoid negative reprisals (Artley & Stroh, 2001).

Political leaders and stakeholders should be in agreement that performance data will be used in the guidance of policy decision making. Political capital is required to ensure resources, support and maintenance of the performance measurement system and that performance data is integrated into the policymaking process (Newcomer, 2007). For example, it took political capital to make certain that resources were made available to the IRS to improve the compliance of the EITC, with an additional $160 million per year earmarked to continue these efforts (Treasury, 2009). In addition, political support and commitment must be expended to provide the resources to train agency staff adequately enabling them to understand and use the data gathered (GAO, 2004). The system must also provide viable performance data in a practical political time frame (Tuck & Zaleski, 1996). Such statements and questions involve extreme planning and foresight including a commitment from political leadership to a long-term resource commitment.

Performance measures represent a considerable political challenge within federal government agencies. Historically, agency measurement has been placed upon procedure and legal accountability (Light, 1993). Change can create deep resistance in organizations and people creating a difficult environment to realize program improvements (Trader-Leigh, 2002). Years and entire professional careers that have been devoted to monitoring procedures have a tendency to render an agency's staff unreceptive to the alteration of its processes and systems. Middle and upper level federal agency managers have had negative experiences with past reform efforts and remain skeptical with such programs as President Johnson's PPBS, Nixon's Management By Objectives (MBO), Carter's Zero Based Budgeting, and total quality management efforts that resulted in only temporary results (Newcomer, 2007).

Program assessment is often difficult and can be full of tension, not only for those performing the assessment but for all those involved (Beer, 1980). A *wait and see* approach to performance measurement is a rather common attitude toward new program assessments. Such cynicism is compounded by the lack of consistent and clear communication from political and administrative leaders that the performance measurement system will be institutionalized and integrated in the decision and policymaking process. The cultural change that is needed to free public managers from a process mentality is rather basic, and the following actions can help maintain momentum to complete the program assessment: resources availability, leadership commitment, adequate time allotment, reinforcing new behaviors, developing new skills and competencies, and staying the course. Holding agency administrators responsible for program performance is a considerable challenge compared to a traditional financial accounting exercise because there are new demands of the participants (Behn, 2001).

Support from key actors outside the EITC program is helpful to build trust required for the execution and development of performance measurement systems. These actors might include political and policy leaders, the OMB, GAO, and congressional oversight and appropriation committees. As most federal agencies have different performance measurements, those participating in the design of the Results Act (GPRA) planned on federal agencies developing useful performance measurement systems through a repetitive learning process particular to their circumstances (W. K. Kellogg Foundation, 2004). The performance measurement process was considered a long-term investment not an overnight transformation. In most cases, the chosen performance measurement system provides only general guidelines, leaving agency programs with the task of translating those guidelines into specific behaviors and procedures (Whitfield, Anthony, & Kacmar, 1995). Local government experience has shown that performance measurement implementation requires time and anticipation should be curbed during development stages (Bernstein, 2000).

Public sector organizations face increasingly complicated and significant challenges in responding to the need for program assessment efforts. Public sector program assessment applications face a unique set of circumstances, including a complex political and administrative environment (Behn, 2001). Program assessments are conducted in the public domain amid a number of stakeholders. Each stakeholder has a legitimate standing in the policymaking process and often in the decision making process. Assessment is further complicated by the structure of public sector organizations (Gregory & Marin, 2009). Although the legislative and political arena is interrelated with the program administrative and staff domain, it is doubtful that each will be involved in the same assessment intervention. If they are, each has a separate role and operates based on different and occasionally competing values. To conduct program assessments effectively, these nuances must be recognized and appreciated.

Assessment implementation. Evaluating program implementation, or performance budgeting, in public programs necessitates systematic measurement; nevertheless, gathering data on performance may prove valuable, it does not promise improvement in program or management performance (Newcomer, 2007). The term performance measurement is given to the regular measurement of program outputs, inputs, and or objectives embarked upon by government agencies to document program performance (Wholey & Hatry, 1992). The last half of the 20th century has seen managers in all levels of government develop and implement performance measurement systems addressing the documentation of government performance (Forsythe, 2001). The increased demand for documentation stems from a growing amount of information, and the desire of the general public and office holders for increased transparency and a more efficient and entrepreneurial government (Ammons, 1995; Osborne & Gaebler, 1992).

In 1947, the Hoover's Commission on the Organization of the Executive Branch, known as the Hoover Commission was charged with recommending methods to improve the effectiveness and efficiency of government. Amid its recommendations was a request for performance budgeting in the federal government (Moe, 1994). The concept of performance budgeting was "first championed by the Hoover Commission at the federal level and by similar reform commissions at the state and local levels" (GAO, 1993, p. 2). Beginning in 1950, "the federal government attempted several government-wide initiatives…what is commonly referred to as 'performance budgeting' or 'managing for results'" (GAO, 1997, p.3). There is consensus that these efforts failed to realign the focus of the federal budget process from the specific items of government spending to that of program results.

In the 1960s, the Planning-Programming-Budgeting-System (PPBS) was introduced in the Defense Department and subsequently mandated government-wide by President Johnson (Greenhouse, 1966). PPBS attempted to integrate “budget choices more explicitly in terms of public objectives” through cost-benefit analysis and modern systems analysis to review alternatives, costs, and consequences (GAO, 1993 p. 5). In 1973, President Nixon introduced Management by Objectives (MBO) in the federal government as a tool to manage a growing government bureaucracy. MBO is principally a management improvement process holding agency managers accountable for achieving formal outcomes, and connecting the agreed upon objectives to the agency’s budget request (Drucker, 1954).

Still another reform effort followed in 1977, when President Carter brought Zero Base Budgeting (ZBB) to the federal government (McGill, 2001). With ZBB, agencies were to prepare a plan or budget to indicate alternative funding levels including objectives and efficiency measures and work load for each level of funding. The ZBB plan is called a decision package because it is a complete package of initiatives, ideas and proposals. Carter’s intent was to analyze the incremental change in a program’s output at different levels of funding (McMurtry, 2005).

The GPRA, or the Results Act, was enacted to establish performance measurement and strategic planning in the Federal Government. It was also enacted to improve Americans’ confidence in the competency of the Federal Government by attempts to link budget levels with expected results for the purpose of aligning spending decisions with anticipated performance (Knezo, 2002). Agencies are required to provide Congress with annual performance plans and performance reports. GPRA establishes three types of ongoing evaluation, planning, and reporting requirements for agencies of the executive branch. The first is a 6 year strategic plan to be revised every 3 years, second are annual performance plans, and lastly annual reports on program performance. To meet the terms of the GPRA, "agencies must set goals, devise performance measures, and then assess results achieved" (Knezo, 2002, p. 4-5).

GPRA budgeting is cumbersome as it goes through many processes before its execution and post-execution analysis. The performance budgeting process requires collaboration for preparation, negotiation, approval processes, and for the approval of expenditures after the entire budget allocation is finalized (GAO, 2007). Additional information may be beneficial to the federal budget debate, but a performance budget will not abolish the necessity for hard political choices.

A priority of President Bush's budget for FY2002 included steps to strengthen the linking of budgets and performance (GPO, 2002). As the President stated, "In the long term, there are few items more urgent than ensuring that the federal government is well run and results-oriented" (Bush, 2007, p. 180). The steps included in the FY2002 budget were followed by the President's Management Agenda (PMA) for improving performance which included a budget and performance integration initiative. In Bush's budget for FY2003 a Management Scorecard was introduced to measure agency progress on the PMA initiatives. The FY2003 budget also contained initial efforts at performance analysis of over 100 programs that were used to inform funding decisions, "constituting the first time a President's budget submission attempted formally to link budget requests with program performance" (McMurtry, 2005).

Because of the complexity of determining the EITC's performance results the government has focused on the administration of the program as stated in President Bush's 2004 budget proposal:

> The structure that is readily available for this purpose is the formal budget structure of accounts and activities. . . . Although the budget structure in not perfect for program review in every instance . . . the budget structure is the most readily available and comprehensive system for conveying results transparently to interested parties throughout the Executive and Legislative Branches, as well as to the public at large. (Brass, 2004, p. 3)

The federal government spends "over $2 trillion a year on approximately 1,000 federal programs. In most cases, we do not know what we are getting for our money. This is simply unacceptable." (Brass, 2004, p. 47). A new Program Assessment Rating Tool (PART) was created in 2002 to "assess and improve program performance so that the Federal government can achieve better results" (OMB, 2007, para.1). PART targets four parts of a program: program management, strategic planning, purpose and design, and program results and accountability.

PART is comprised of questionnaires developed by the Bush Administration to assess the success of various federal executive branch programs, and to have an effect on funding and management decisions. PART is used by agency program managers and OMB staff to evaluate over 200 (doubled from prior year) programs during the course of formulating the FY2004 budget. The PART reviews have continued and expanded, covering 20% of programs in each fiscal year 2002 through 2006. In Congress, there continues to be interest in observing the PART process, and the Administration's performance and budget integration initiative and ongoing execution of GPRA. In the 108th Congress, H.R. 3826, to provide a statutory mandate for PART-like reviews, was reported favorably by the Government Reform Committee, and a similar measure, H.R. 185, has been approved by the committee in the 109th Congress.

President Bush's FY2008 budget proposes to "reform projects and spending that don't get the job done" (Bush, 2007, p. 1). Bush goes on to say that to bolster public confidence in the Government's ability to manage taxpayers' money successfully, Congress should adopt earmark reform. The earmark process, the budget items best known as *pork projects*, should become transparent, putting an end to the practice of hiding earmarks in so-called report language never part of legislation. President Bush stated that "the number and cost of earmarks should be cut by at least half by the end of this session" (Bush, 2007, p. 1). Congress has taken action on earmarks and a vote mostly along party lines passed rules mandating the disclosure of spending projects and their sponsors and that it will be compulsory that Congressmen provide justification for the expenditure, and attest that they will not benefit personally (Slivinski, 2007).

Federal agencies have improved Federal payment accuracy by ensuring that funds are correctly accounted for and the right person is receiving the right amount. Federal agencies reported in 2006 that they had reduced improper payments by 20% over 2 years or $45.1 billion to $36.3 billion. Originally, just 30 programs in 2004 reported estimated erroneous payments. The Improper Payments Initiative is responsible for all major Federal programs defined as high-risk to report their error measurements by 2008 (OMB, 2007).

With the help of the PMA, agencies are more transparent, disciplined, and results-oriented in their administration of people, investments, costs, and programs. Every agency identifies each of its management areas with clear timeframes and goals (OMB, 2007). Plans are developed identifying responsible parties and applicable resources to accomplish stated goals. Every project has an established set of goals that each agency endeavors to achieve. Success is measured by a scorecard with green, yellow, and red ratings. An agency attains the top green rating when it has successfully accomplished every desired outcome in the initiative. Agencies are also assessed through progress scores depicting how well they have implemented their planned improvements.

The IRS EITC Compliance Program is responsible for the administration of the EITC. "The program seeks to maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers" (ExpectMore.gov, 2009, para.1). Table 2 depicts the last EITC program assessment (FY2002) which was scored as *Ineffective*.

Table 2

Illustrative Performance Measures for EITC Program Assessment

EITC 2009 Strategic Goal: Compliance

Statistics: Last Assessment Year – 2002; Improvement Funding Level 2009 - $161 million

Improvement Plan Score: Program Results/Accountability – 8%, rated Ineffective.

Other Assessment Scores: Program Purpose & Design – 100%, Strategic Planning – 60%, Program Management – 69%.

Goal: To maximize participation of eligible taxpayers and reduce payments to ineligible taxpayers.

Goal Type	Term	Performance Measurement
Outcome Improve erroneous payment rate for the EITC program.	Long-Term	Target rate of 23%-28% for EITC dollars paid that should not have been paid

(continued)

Output	Annual	Incorrectly claimed revenue IRS protected through non-payment or recovery. Target rate of $1.169 billion protected. Note: The IRS chose not to use revenue protected as a performance measure.
Output	Annual	EITC returns audited. Note: IRS chose not to use returns audited as performance measure.
Outcome Maintain number of eligible taxpayers who file for EITC.	Annual	Target of 75-80% of eligible taxpayers who file for EITC

Note. Source Expectmore.gov (2009), IRS EITC Program Assessment.

Assessments include four sections that address separate aspects of a program: Planning, Program purpose and design, Results and accountability, and Management. The IRS EITC Compliance score was 100% for its Program design and purpose, 60% for Strategic Planning, 69% for Program Management, and 8% for its Program Results and Accountability. To correct the EITC program deficiencies (non-compliance), The IRS has budgeted program funding levels of (in millions) $167 for FY2006, $163 for FY2007, $167 for FY2008, and $161 for FY2009 (ExpectMore.gov., 2009).

In FY2009, the IRS continues its efforts to reduce improper payments for the EITC program. The EITC is the only high risk rated program in the U.S. Treasury Department owing to erroneous payments (OMB, 2009a). The IRS continues to assess innovative ways of reducing erroneous payments without jeopardizing participation by eligible taxpayers. The IRS is also pursuing redesign efforts and base compliance activities (Treasury, 2009). “By detecting and correcting errors during return processing, the IRS prevented incorrect refunds in the amount of $460 million and $400 million, respectively for the 2006 and 2007 filing seasons" (p. 11). The U.S. Department of the Treasury stated that this trend in reduction of errors is due to return preparation assistance, education, and electronic filing.

Honest, credible numbers are an essential component of deliberative governance in a democratic America. Over 175 years ago, James Madison wrote: "A popular Government, without popular information, or the means of acquiring it, is but a Prologue to a Farce or a Tragedy" (Padover, 1953, p. 337). Faulty numbers lead to bad policy choices. Policy data should be produced by competent researchers and analysts using sound technical methods without the application of political spin to fit partisan needs. In addition, policy information and analysis should not only be sound but that a reasonable foundation exists to support the assessment. Credibility needs to be distinguished from *believability* where unsound information may be accepted as true (Williams, 1998). A basic issue is whether more policy information, analysis, and debate enhance public decision making or overwhelm the policymakers and the public.

Under the mounting pressures to supply performance accountability, it is not unusual for a program manager or policy makers to use immediate or incomplete results to measure program effectiveness (Hatry, 1999; Scheirer, 2000). Studies have found that "economic analysis of projects often functions more to justify decisions that have already been made than to support the ongoing allocation of resources" (Tendler, 1975, pp. 94-95) indicating that misunderstandings may be derived from basic descriptive measures.

As Kreft (1996) noted that in general, no statistical model is optimal and that selecting a model is based on the research question and the type of data and the way data is collected. At the same time, it should be noted that evaluations are often mandatory as funding for services are made contingent on a simultaneous program evaluation. While highly regarded agencies employ suitable analytical techniques in the evaluation of social programs, frequently limited evaluative efforts using simple descriptive analyses are typically required in this time of public performance management (Hatry, 1999; Heinrich, 2003).

Pritchett (2002) concludes, "advocates of particular issues or solutions – the public equivalent of entrepreneurs – have incentives to under invest in knowledge creation because having credible estimates of the impact of their preferred program may undermine their ability to mobilize political (budgetary) support" (p. 251). Careers are often built on "demonstrating good performance in more easily monitorable tasks, such as committing and spending budgets'" (Martens, Mummert, Murrell, & Seabright, 2002, p. 20). For politicians who approve funding, "less accurate evaluations reduce their vulnerability to critics and the chance of losing tax payers' support" (p. 172).

Theoretical Framework for Policy Formation

Understanding political leadership's motivation and the effectiveness of the federal EITC is important to determining whether or not the EITC should continue to receive political support and government funding. Government is one of the most important influences in our lives. With or without our expressed consent, "policymakers make decisions about which societal problems to address, then identify and formulates solutions to those problems" (Singh, 2003, p. 246). Policymakers implement public policies by making use of legislative mechanisms to fund, monitor, and evaluate policy efficiency and effectiveness. Together, decisions and the lack of decisions form the *whole* that we label public policymaking (Anderson, 2010). A better understanding of the EITC decision making process is important in the consideration of EITC policy choices.

This, the fourth segment of the literature review explores two separate models of policy formation theory to understand EITC leadership motivation: the multiple streams model, and the punctuated equilibrium model. Ingraham (1987) and many others have noted the need for one model, design, or theory in public policy. Meanwhile, public policy scholars have advocated for "additional empirical study of agenda setting, alternative formulation, and policy design" (Schneider & Ingram, 1993, p. 13).

The first part of this section will examine the multiple streams model, as described by Kingdon (1995). The multiple streams model tries to answer two public policy questions: How do leaders place policy issues onto the political agenda? And once there, how are alternatives solutions devised? Kingdon (1984) suggests that three separate *streams* comprise this model: (a) problem recognition, (b) the development of policy solutions, and (c) politics. As Kingdon (1984) states, "A problem is recognized, a solution is available, the political climate makes the time right for change, and the constraints do not prohibit action" (p.93).

The second part of this section reviews the punctuated equilibrium model. The punctuated equilibrium model, as described by Jones et al. (1999) suggests that both change and stability are key elements of the policy process and emphasize two related elements: "issue definition and agenda setting. As issues are defined in public discourse in different ways, and as issues rise and fall in public agenda, existing policies can be either reinforced or questioned" (p. 97). The punctuated equilibrium model extends research conducted by Jones et al. (1999) on federal budgeting and provides current evidence of stability and change in U.S. budget authority for the period 1947 to 1995.

Both theories are relevant when discussing the policy process undertaken by our political leaders and how welfare reform politics have influenced social policy through tax policy. A starting point for understanding the theoretical framework of policy formation is defining it. Public policy, agenda setting and decision-making, can normally be defined as the action or inaction by governmental agencies toward a particular issue or set of issues. Public policy is "the sum of government activities, whether acting directly or through agents, as it has an influence on the lives of citizens" (Singh, 2003, p. 246). Shaping public policy is an involved and multifaceted process that involves the dealings of many individuals and interest groups collaborating and competing to influence policymakers toward a specific outcome. The following theoretical frameworks narrow the discussion of policy formation as it relates to EITC policies.

Multiple streams model. Behavioral theory provides theoretical frameworks for analyzing policy formation processes. One, the multiple streams model defined by Kingdon (1995), is a model that focuses on the flow and timing of policy activities. The intent of this model is to explain why certain issues reach policy agenda prominence while others fall short. The adoption of specific alternatives depends on when policies are made, and "It provides answers to three essential questions: How is the attention of policy makers rationed? How are issues framed? And how and where is the search for solutions and problems conducted?" (Zahariadis, 1999, p. 75).

Kingdon's model describes the existence of three distinct, but complimentary, processes (streams) in policy formation: problem recognition, the formation and refining of policy proposals, and politics. They are principally, although not entirely independent of one another as separate forces and policy actors typically govern them. It is the union of the three streams that enables, at any given moment, in a given framework, for a particular issue to be turned into a policy.

Therefore, the means of change is the union of the streams at decisive times. As problems are recognized, policy solutions are formed and made available, and the political environment is right, a window of opportunity for change is available. That opportunity may only be open for a brief period of time as other streams are simultaneously flowing that may produce a different union and, therefore, a different result. For example, bureaucrats supporting an expanded welfare policy could experience new budget constraints as the economy constricts or the political climate may change by the election of the opposition party to office.

Of the most influential federal government actors in agenda setting are the president and his advisors (administration), second are members of Congress and their staff. Being a committee chairperson, a ranking committee member, or powerbroker enhances a member of Congress's ability to further agendas (Dearing & Rogers, 1996). Kingdon (1995) notes, those members of Congress participate in policy agenda setting to address constituent needs, to enhance their aptitude and power, and to set valid public policy into effect.

Congressional staff members are interdependent with their representatives and senators and frequently provide policy ideas (Skrzycki, 2003). They are significant actors by virtue of their ability to focus their energies on a specific problem; they have access to important members of Congress and their staff, they span both the technical and political environment resulting in significant impact on policy alternatives (Kingdon, 1995). Kingdon suggests members of Congress are more important to agenda setting and staff members to alternative formulation.

Kingdon (1995) compared governmental and non-governmental actors and found that governmental actors were more influential in agenda setting whereas non-governmental actors often participate in the blocking of agendas than in promoting them. Non-governmental actors then become more significant in devising alternative solutions. Interest groups are most effective if they can "convince governmental officials that it speaks with one voice and truly represents the preferences of its members. If the group is plagued by internal dissension, its effectiveness is seriously impaired . . ." (p. 55). Kingdon implies that elected officials view interest groups differently based on their unity, income, and education. Schneider and Ingram (1993) support this idea with their social construction model of target populations and their model supports Kingdon regarding the importance of a group's composition when analyzing the success of policy making.

In addition to the various actors, Kingdon emphasized that a policy idea can originate from anywhere and that in most cases the source of origin was not of great consequence. It is however, essential than a policy idea "land on fertile ground and be nurtured. Thus, the key to understanding policy change is not where the idea came from but what made it take hold and grow" (Kingdon, 1995, p.76). Kingdon's (1995) research focused on that idea that suddenly took off, "an idea whose time has come" (p.1). Figure 9 outlines the multiple streams process:

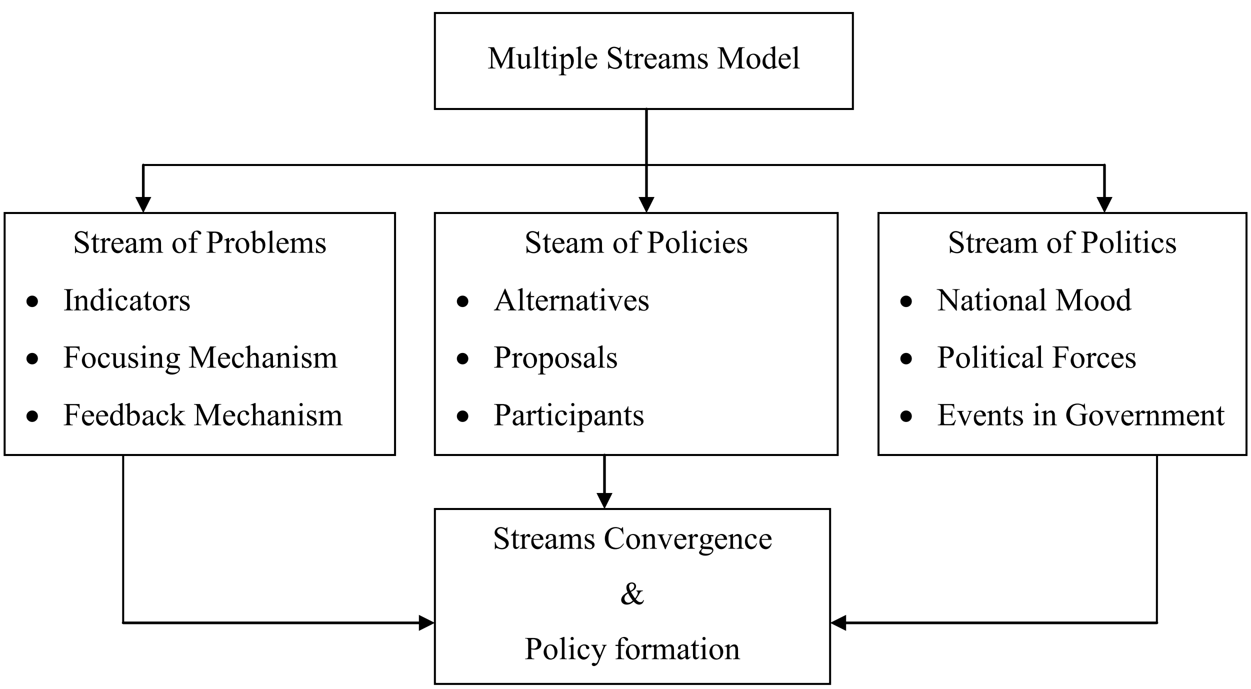

Figure 9. Multiple stream model policy formation process.

The stream of problems. A given circumstance has to be identified and specifically expressed as a problem or issue to be transformed into policy (Stone, 1997). A problem stream can be evident through a sudden crisis, regular indicators of a problem, or by feedback that a program is not working as planned. Kingdon (1995) reported that half of his research interviewees reported that indicators (i.e. reports and studies) were important in placing an issue on the agenda. He highlights that conditions are precursors to a problem: conditions become a problem upon the belief that there should be something done about them. The idea that an issue is a problem and that something should be done about it is a requirement for developing that issue into policy. It is also important that the problem be able to be addressed by human action.

When reviewing how government actors focus on one problem rather than any multitude of others, Kingdon (1995) focused on three categories or methods for bringing problems to the forefront. One method is to use indicators to determine the magnitude of a problem and to identify changes in that problem. An indicator may be the number of people below the poverty-line; another may be the federal expenditures toward welfare benefits. A change in an indicator could mean a positive or negative change in the status or condition of a system. Therefore, an increase in individuals below the poverty-line might indicate a need to increase funding for food stamps, Medicaid, the EITC, or other such programs.

The national welfare system expanded to address the Great Depression both in federal regulations and coverage. From its beginning, the welfare system had critics. The complaints ranged from it not doing enough to get people to work and others held that the federal government should not be in the welfare business. As the system expanded, so did its criticism as did its prominence on the policy stage. Kingdon (1984) interpreted the impact of the budget on problem definition as an unusual situation.

Budgets in effect may act as an advocate or opponent to a problem issue. The increasing costs of welfare demonstrate the budget as an advocate. Because of increasing costs, welfare remained at the vanguard of social policy issues to the loss of alternative policies. One the other hand health care could be classified as an opponent. As noted in public opinion polls (Kaiser Health Tracking Poll, 2009), health care ranked fourth at 39% as a priority for President Obama and Congress. Health care followed the country's economy (71%), fiscal soundness of Medicare and Social Security (49%), and fighting terrorism (42%) as key issues to be addressed. In response, President Obama proposed in his 2009 Budget a immense expansion of the U.S. health care system through the creation of a $634 billion reserve fund over the next decade (Bazinett & Mcauliff, 2009). Beginning an overhaul that the majority of experts project will in the end cost at least $1 trillion (Wolf, 2009). Health care may well become an advocate as the projected costs of health care go well beyond feasible and interest in health care as a policy decreases.

The second category utilized to bring a problem to the attention of officials is the focusing mechanism. The focusing mechanism includes significant events, crises, and symbols. The use of the focusing mechanism can reinforce pre-existing impressions, serve as an early warning sign, or combined with other events bring attention to the problem. An example of this symbolism was used by Presidents Kennedy (New Frontier) and Johnson (War on Poverty) in addressing the problem of poverty.

The 1960s and 1970s were times of great social welfare policy change. During President Kennedy's 1960 presidential campaign, Kennedy asked Americans to face the challenges of the "New Frontier" (Carr & Conte, n.d.). Upon reading the *paradox of poverty amidst plenty*, in *The Other America* by Harrington (1962), President Kennedy was troubled by it and was influenced to direct his Council of Economic Advisers to prepare antipoverty initiatives as part of his New

Frontier. These initiatives would become the foundation for the *War on Poverty* declared by President Johnson in 1964. In the early 1960s, "'poverty' the condition came to be defined as 'poverty' the problem" (Ventry, 2001, p. 44). President Johnson's Great Society called for an end to poverty. In a speech to students at the University of Michigan, President Johnson said "Will you join in the battle to give every citizen an escape from the crushing weight of poverty?" (Wicker, 1964, para. 28).

Welfare reform in the mid-1960s to the mid-1970s generated passionate policy and public debates on the character and goals of anti-poverty policy, although nearly all spending increases on income-tested programs since the mid-1970s was on behalf of health and medical care programs. Expenditures on welfare spending declined as a percentage of all income-tested spending, but debate concerning it increased exponentially. Expectations on the poor to work have steadily increased, while backing for entitlements to and the inflation adjusted value of welfare benefits gradually declined (Rector, 1993). Simultaneously the prospects for less-skilled workers in the labor market were declining (Danzinger & Lehman, 1996).

The third category is the feedback mechanism. This mechanism provides formal feedback through systematic monitoring, evaluation studies, economic research, and informal research through surveys, press, and voter feedback (Schutz & Blakely, 1980). As feedback may be positive or negative in nature, policy actors may highlight or restrict the feedback that is supplied to policy makers. Feedback may cover whether a program is meeting its goals and objectives, within or exceeding budget allocations, or if the implementation of the program mirrors the intent of the legislation and of policy makers. Feedback can also provide useful information regarding unintended consequences stemming from public policy (CBO, 2000).

An example of the feedback mechanism can be shown through the political heritage of the EITC. It provides evidence that the anti-poverty and anti-welfare debates of the 1960s and 1970s generated increased expert and political awareness that laid the foundation for the bipartisan consensus for the creation and development of the EITC. From these debates "Congress viewed the EITC as an alternative to conventional welfare programs, and in particular, to the negative income tax component of Richard Nixon's Family Assistance Plan" (Ventry, 2001, p. 2).

Kingdon (1995) provided several factors for the fading of policy makers' focus on a problem. One explanation is that policy makers handle many problems at one time and once legislation is passed or decisions are made, policy makers move on to the next agenda item. Another reason for fading of focus is negative feedback. As long as there is positive feedback attention to a problem will continue. Third, the novelty of the problem has faded and the focus ended. Fourth, if policy makers fail to address and or solve a problem it is likely that the problem could move to a lower status on the agenda or disappear altogether. Kingdon's last fading factor, reworked from Downs (1972), explains that when the realization that the financial and social costs of the solution is massive then the focus on the problem fades.

The stream of policies. The second stream of the multiple streams model, the steam of policies, is focused on the development of policy alternatives and proposals. This stream is characterized by the policy community and their presence of ideas, the idea introduction phase, the criteria development for the survival of ideas, and the presence of available alternatives. Zahariadis (1999) states that the stream of policies "deals with policymaking only under conditions of ambiguity" (p. 74). Ambiguity refers to "a state of having many ways of thinking about the same circumstances or phenomena" (Feldman, 1989, p. 5). New policies will not be shaped if there are no ideas or policy proposals on which they can be built upon. A key feature of Kingdon's (1995) model is that technically feasible proposals and solutions are not at first built to resolve given problems. Rather they drift in pursuit of problems to which they can be integrated. A variety of policy participants can partake in the development of such solutions and alternatives, and in the drafting of proposals for policy reform.

The EITC evolved from the stream of policies dating back to the evolution of the U.S. social welfare system starting around the turn of the century to current day. From the Colonists early influences of England's 1601 Poor Laws and the Puritanical work ethic to contemporary welfare reform with the goal to reduce dependence on welfare. President Roosevelt New Deal introduced a far more reaching federal government. President Lyndon Johnson's Great Society identified poverty as the social problem of the 1960s. In the 1970s welfare dependency became the social problem and policy experts attempted to fill the "poverty gap" through various anti-poverty schemes.

Kingdon (1995) continued to explain how policy communities and ideas are selected. Kingdon defines a policy community as consisting of specialists: researchers, academics, congressional staffers, interest groups, and others. Policy communities are those groups of specialists who have interest and expertise in particular areas, such as social welfare and poverty (Jordan, 1990). Policy community participants may either be part of government or be outside of government. Even though policy community participants are affected by political decisions, policy streams are independent of political streams. Communities vary in structure as well. Cohesive communities are more than likely to share vocabulary, have a common outlook, and orientation resulting in a more stable environment for their policy field. Alternatively, a policy community experiencing a high degree of fragmentation may result in a higher degree of policy fragmentation. These community actors are known to each other through their research, writings, participation in professional organizations, and through social and professional networking (Rabin, 2003).

Policy entrepreneurs are significant actors in the policy stream. They are actors who take up a cause and make it part of the political agenda (Mintrom, 2000). They are willing to expend their personal resources of persistence, expertise, and skill to realize specific policies they favor (Weissert, 1991). Like business entrepreneurs, policy entrepreneurs are committed to investing financial resources, time, energy and reputation on advancing ideological beliefs and promoting their policy agenda “in the hope of a future return” (Kingdon, 1995, p. 129). Milton Friedman would be classified as an entrepreneur in the welfare reform setting. Friedman’s “articulation of a negative income tax in 1962 made it a viable policy option” (Ventry, 2001, p. 6). Friedman wrote and spoke extensively on the NIT throughout the 1960s. Although policy entrepreneurs sometimes provide solutions to problems, Kingdon suggests that at times they are looking for problems to affix their pet solution.

Personal traits or characteristics that increase policy entrepreneurship are social position (Fligstein, 1997), risk taking behavior (Schneider & Teske, 1992), mobilization and discovery of political support and preferences (Francois, 2003; Kingdon, 1984) and independent spontaneous behavior (Mutch, 2007). Policy entrepreneurs function to translate, introduce, and help implement new ideas into public practice from outside the formal positions of government.

Kingdon (1984) argues that policy ideas remain active within a policy community through efforts of policy entrepreneurs and other specialists. The policies must be viewed by specialists as technically possible and compatible with their values. If the policy community is highly fragmented then acceptability is significantly less likely to occur. In addition, if policy communities are willing to support a policy they must believe the proposal will withstand cost constraints, public opinion, and receive political approval. Proposals are *softened up* through the efforts of someone building support and acceptance of the new ideas. This is accomplished via policy entrepreneurs, policy committees, or by agenda-setting participants through education or by freeing *trial balloons* and making presentations and speeches. This phase is known as "getting your ducks in a row, greasing the skids, and get people to talking" (Kingdon, 1995, pp. 135-136). Proposals that have emerged through the policy community's selection process are more likely to be placed on policy makers' short agenda list.

The EITC had a long history of predecessor policies that *softened up* the idea of a work income credit. By example, the key objective of the 1960s welfare reform proposals was to decrease poverty through cash assistance to both non-working and working poor families with children. In the 1970s, as public discontent rose along with welfare rolls and government welfare spending, much more attention was paid to constraining the budget and promoting work requirements and incentives for the non-working poor (Ventry, 2001).

In the 1970s, welfare remained a national problem, the public and policy makers preferred pro-work social programs, and economic growth, unemployment, and tax reduction were also considered national problems (Ventry, 2001, p. 46). The NIT was one of many anti-poverty proposals by the Johnson administration although the President withheld his support and the NIT floundered. Immediately thereafter;

> Richard Nixon gave the NIT new life. 'Welfare dependency' had joined 'poverty' as a pressing national problem. Rising welfare rolls indicated that the existing system of social assistance perpetuated the time individuals spent on the public 'dole.' The FAP

[Family Assistance Plan] proposal, with its NIT and work requirements, promised to eliminate both poverty and welfare dependency. (p. 45)

Just as the NIT resurfaced to the top of the political debate it faced two predominate issues that would ultimately prove its undoing. The first was the highly publicized Congressional debates over the interaction of an NIT with means-tested programs of in-kind benefits, notably Medicaid. As the NIT "may worsen income notches, where working more means losing the ability for Medicaid or other programs and thus being worse off" (Weaver, 2000, p. 57). The second was that credible economic agents challenged the NIT plan. The Nixon administration failed to remedy the *income notch* problem or overcome the challenges to the NIT plan in that it did not "contain an adequate income guarantee, maintained all the characteristics of the tax system, and provide work incentives, all at acceptable cost" (Ventry, 2001, p. 45). The policy agenda window of opportunity had closed on the NIT.

Although many policy alternatives were proposed at different times, in the 1960s policymakers had lively debate regarding entitlement oriented guaranteed annual incomes (GAIs). In addition to GAIs, policymakers in the 1970s added work orientated programs to the debate. The underlying issue was the perceived social crisis of the last two decades. The policy debates regarding President Nixon's welfare initiative, the FAP, highlighted the "transitional period between the perceived social ills of poverty on the one hand and welfare dependency on the other" (Ventry, 2001 p. 3).

Furthermore, Nixon's FAP highlighted "trade-offs in tax-transfer programs that not only doomed FAP, but also engaged policymakers for the next thirty years" (Ventry, 2001, p. 3). The intense debate over FAP made politicians aware as to how the tax system, could ease, or conversely, aggravate social problems. These debates gave rise to many alternative tax transfer ideas and proposals, one of which was the EITC. Kingdon (1995) wrote “Many times, proposals and ideas float around . . . for some time, without being taken very seriously” (p. 31). Although the idea for the EITC arrived on the formal agenda in 1975, it had been built upon by a 15-year history of complimentary policy ideas.

Kingdon (1995) quoted a congressional staff member about information and communication patterns on the Hill: “It’s interesting, dealing with the Hill. It’s very informal. Most of it is oral, most of it among friends. On the Hill, there are no channels. It’s who knows whom, which friends you develop” (p. 41). This fluidity of relationships was evident in the initial agenda setting process for the EITC. Congressional staffers, committee chairpersons, members of Congress had knowledge about the pros and cons of each proposal that lead up to the enactment of the EITC and determined how politically feasible such a policy would be.

A problem’s issue placement on the formal agenda by a member of Congress fits with Kingdon’s model regarding such actor’s importance in agenda setting. Kingdon’s (1995) research found that 91% of the time members of Congress were the significant actors in agenda development. He stated that “members of Congress, in contrast to most other actors, have the unusual ability to combine some impact on the agenda with some control over the alternatives” (p. 38). The importance of this ability can be seen through the activities of Chairman Russell Long (D-La) of the Senate Finance Committee. Senator Long worked against the FAP because it contained work disincentives. In addressing the benefits from the FAP, Long pointed out that the amount a FAP recipient would receive *is less than what he would get if he were totally unemployed.* Long added, “In other words, he can increase his family’s income by…quitting work entirely” (Moynihan, 1973, p. 465).

Long was an accomplished legislator and observed that members of Congress had a preference for assisting low-income, working families, the *working poor*. Long proposed "an alternative to FAP that directed benefits towards the 'deserving', poor, that is, those willing to work" (Ventry, 2001, p. 13). Long's proposal was part of a larger public works program including wage subsidies to low-income workers. Finance Committee members "expressed interest in Long's work bonus proposal. But in 1972, Congress rejected it along with FAP" (p.13). Despite this defeat, Long continued his efforts by attaching the plan to various pieces of legislation to keep the work bonus on the policy agenda. The Senate passed versions of Long's work bonus plan in years 1972 through 1974, but each were voted down by the House in Congress. The work bonus was then incorporated into President Ford's enacted Tax Reduction Act of 1975.

The stream of politics. Although political events take place independently of the other streams, these events can propel an issue to be included or excluded from policy agenda discussions. Major political events may change or alter the current agenda. In the political stream, consensus is not usually obtained through persuasion, but rather the result of intense bargaining (Howell, 2004). Therefore, more focus is paid to the assessment of the cost and benefits of a policy proposal than that of its underlying analytical significance and relevance.

As noted, the political stream forms consensus by bargaining. This is accomplished through pressure group campaigns, election results, public mood, changes of administration, and ideological partisan distributions in Congress (Rhoads & Shogren, 2003). Influential factors in this stream include committee jurisdictional boundaries and turf concerns among various agencies and government branches. Leaders must be cognoscente that in the political stream, it is essential to study coalition building by policy makers. Negotiation and influence are valuable techniques but bargaining is the course usually taken. In compiling a winning coalition, policy makers may be expected to say, “You give me my provision, and I’ll give you yours” rather than, “Let me convince you of the virtue of my provision” (Kingdon, 1995, p. 167).

Examples of changes in the political stream include three components: public or national mood, organized political forces, pressure group campaigns, and events in government. Bosso (1992) added election years as potential windows of opportunity. The importance of certain high ranking congressional members is also strategic to the political stream. The national mood indicates that there is a consensus in the way people are thinking and can work to promote or constrain a policy idea. The national public mood may be inferred by politicians through informal feedback, press, or from active social policy leaders. National moods can dictate policy decisions and a subtle shift in climate could make viable ideas defunct and other ideas viable that were once disregarded (Biggs & Helms, 2007).

The second component, the organized political forces and pressure group campaigns, can either work in favor of an issue or against it. When political forces support an issue it may cause that issue to rise in prominence on the policy agenda list. Alternatively, when political forces oppose an issue it can affect its survival or decline on the policy agenda list. Policy actors must determine if the associated political and economic capital required to pursue a policy idea is worth the battle against organized political forces (Biggs & Helms, 2007).

Third, an event in government such as changes in members of Congress and or administrations are reason for agendas to change and are the last component of the political stream (Biggs & Helms, 2007). Change in key actors may change priorities or new workers in government positions may also have a different focus than before. New people in office produce new agenda items and in some cases old agenda items are no longer important. When there are changes in an administration, others involved in government wait to find out what their priorities are and the success of the incoming administration in championing them. As turnover affects priorities, bureaucracies affect agendas (Kingdon, 1995).

Data shows that the EITC policy option originated from the political stream. In 1974 President Ford introduced the Tax Reduction Act of 1975 hoping to bring economic stimulus to a receding economy through tax cuts. A feature of the bill's tax-cutting was the creation of Section 32 of the Internal Revenue Code by Congress. Section 32 provided, for one year only, a refundable credit for taxpayers with incomes below $8,000. A Finance Committee report recommended that the EITC would "assist in encouraging people to obtain employment, reducing the unemployment rate and reducing the welfare rolls:" (U.S. Congress, Senate, 1975, p. 33). The Ways and Means Report which first included the EITC stated "it is appropriate to use the income tax system to offset the impact of Social Security taxes on low-income persons in 1975 by adopting for this 1 year only a refundable income tax credit against earned income" (U.S. Congress, House, 1975, p. 10). Section 32 of the Act arrived on the agenda both as part of a public mandate for welfare recipients' move towards a path of economic independence through implied work incentives and conformity to federal budgetary restrictions. Data indicates that this policy option was a culmination of many varying forms of policy that preceded it. Thus, Kingdon's model regarding policy alternatives applies here.

Kingdon's model suggests that government jurisdiction must also be considered in the political stream. This includes regulations, constitutions, statutes, and charters. Often times, there is a struggle among various agencies and officials having different interests. Using Miles' Law to put it simply, an old political cliché, "where you stand depends upon where you sit" (Miles, 1978, p. 401). Similar competition exists among executive branch departments. These disagreements can frequently cause an item to rise in significance on the agenda, which occasionally forces advancement and at times causes stalemate.

The coupling of EITC three streams occurred when the problem was recognized, a policy solution was formed and made available, and the political environment was right for its enactment. The policy makers recognize this as a window of opportunity and included the EITC as a section of the much larger Tax Reduction Act of 1975. Therefore, the means of change is the union of the streams at decisive times. Distinctive factors affected each of the model's three streams and each stream influenced agendas and alternatives differently. Reviewing the problem stream, policy ideas may become part of the agenda if there are indicators of a problem or inequities in resources among groups. For this example the escalating federal welfare expenditures were consistently cited as an indicator.

Expenditures increased rapidly in social welfare following Johnson's declaration on poverty, increasing from 11.0% to 18.2% of GDP between 1965 and 1975. If medical care and health expenditures are omitted the remaining programs rose from 9.8% to 15% of GDP between 1965 and 1975 (SSA, 2002). The antipoverty government transfers follow a similar pattern with increases from the mid-1960s to the mid-1970s, followed by a flattening off during the next two decades. Federal social welfare expenditures were $25 billion in 1960, $77 billion in 1970, and $167 billion in 1975. State and local expenditures were also significant at $27 billion in 1960, $68 billion in 1970, and $122 billion in 1975. Since the Second World War, "U.S. social welfare programs have expanded in scope and in size and by 1977 comprised 56 % of U.S. federal expenditures" (Browning, 1985, p.198).

In the second stream, the policy stream, Kingdon noted that elected officials engage in initiatives because of electoral motives. He also conceded that officials pursue policy for its sound substantive content. Within the policy stream, Kingdon highlighted five criteria that must be met for a proposal to endure. As the EITC has been policy for more than 37 years and has significantly increased in size the five criteria are worthy to include in the continued policy analysis of the EITC:

- Technical feasibility
- Value acceptability within the policy community
- Tolerable cost
- Anticipated public agreement
- A reasonable expectation decision makers will be receptive to it

Upon enactment, the EITC met all five criteria. The EITC is technically feasible because it is under the federal jurisdiction of the House Energy and Commerce Committee and the Senate Finance Committee. The EITC is not like other federal assistance programs as it is administered through the Internal Revenue Service (IRS). This offers many important advantages. The first advantage is that of relatively minor administrative costs. Costs for administration for food stamps and traditional cash assistance programs can be as high as 15%, while administrative cost of the EITC is roughly 1% (Wirtz, 2003). According to a GAO study, a second advantage is that the EITC program is an efficient program. The estimated overall participation rate of the EITC is 80% to 85% nationwide, and the participation rate among families with one or two children is even greater (Brostek, 2001). A third advantage is that the EITC is administered through the IRS limiting employer costs. Employers do not have to file documentation for an employee claiming the EITC. Additionally, state EITC programs are calculated based on the federal EITC, making state EITC programs simple to administer.

The “value acceptability within the policy community” (Friedman, 1970, p. 3) regarding the idea of a welfare reduction, anti-poverty program based around a work incentive had historical ebbs and flows in support. As NIT plans proliferated throughout the 1960s, critics associated them with GAIs. There was confusion between GAI and NIT plans that Friedman (1970) publicly denounced as “superficially similar but basically very different guaranteed income plan[s]” (p.1). In President Johnson’s opinion both the NAI and GAI created a work disincentive. His Economic Opportunity Act of 1964 “reaffirmed the central and traditional objective of extending opportunities for individual initiative; they provided a hand up, not a handout” (Davies, 1996, p. 34). Johnson was against cash supplements of any kind and favored offering to everyone “the opportunity to work” (Wicker, 1964, p. 377).

The total costs of the EITC have increased considerably from $1.25 billion in 1976 to more than an estimated $50 billion in 2010. There have been critics of the EITC such as Senators Nickles (R – OK) and Gregg (R-NH) who argued that reductions in program were defensible because Congress must restrain its unsustainable rates of growth (Hamond & Hogan, 1995). This contrasted harshly with prior GOP positions when the EITC expansions were favored to habitual increases in the minimum wage. What critics had ignored was that expansions in the EITC were expressly sanctioned and voted on by Congress.

While expansions in the major entitlement programs (Medicaid, Medicare, and Social Security) are affected by increasing health care costs and aging demographics the price of the EITC has increased significantly since Congress had voted three times for major expansions of the EITC’s scope and benefits. Moreover, the purpose the EITC serves is compelling and clear: making sure that families with full-time workers do not live in poverty. Again, as opposed to major entitlement programs, the annual program costs of the EITC have declined as a percentage of the gross domestic product (GDP). These factors combined have made the EITC *tolerable* particularly when compared to available alternatives.

The public had been supportive of the proposed anti-welfare, pro-work measures that had been debated. Gallup surveyed individuals informed about the FAP, a forerunner to the EITC, and found 65% in favor and 20% opposed (Moynihan, 1973). Ninety-five percent of editorials praised the proposal and 81% of telegrams received by the White House were also favorable (Small, 1999). In White House correspondence from Daniel P. Moynihan to Art Klebanoff regarding an informal White House survey of four-hundred editorials, Moynihan proudly reported, "The merging of a work requirement with a general income scheme was far and away the single most praised aspect of the President's proposal" (Ventry, 2001, p. 8). Ventry provides further statistics that highlight the public's agreement with the notion of a work requirement proposal to reduce dependence on welfare and alleviate poverty:

> The American people also favored work over income programs. In a 1966 Gallup Poll, 67 percent of respondents opposed a "guaranteed minimum annual income" (Gallup, vol. 3, 1972, p. 1965). By 1968, public opinion had warmed slightly to a GAI; 36 percent favored and 58 percent opposed a federally guaranteed family income. But tellingly, 78 percent of respondents favored guaranteeing a job rather than a cash grant (Gallup, vol. 3, 1972, p. 2133). Poverty may have been the social crisis of the 1960s, but avoiding dependency on the government remained a top priority for Americans and their elected officials. (p. 7)

With the enactment of the Tax Reduction Act of 1975, the final criterion "a reasonable chance for elected decision makers to be receptive to it" (Ventry, 2001, p. 11) has certainly been met. With major expansions in the credit in 1986, 1990, and 1993, presidents from both parties, from Ford to Obama have supported it. President Clinton stated in regards to the 1993 EITC expansion “Last year, we fought for, and won, a major expansion of the EITC. . . . This credit will help millions of workers and is a cornerstone of our effort to reform the welfare system and make work pay” (Clinton, 1994, para.1).

While an office holder in both the Illinois State Senate and the U.S. Senate, Obama championed efforts to expand the EITC. In his election campaign, President Obama stated that he “will reward work by increasing the number of working parents eligible for EITC benefits, increasing the benefit available to parents who support their children through child support payments, and reducing the EITC marriage penalty which hurts low-income families” (Obama, 2009a, para. 11). Under the Obama-Biden plan, full-time workers earning minimum wage would receive an EITC benefit of “up to $555, more than three times greater than the $175 benefit they get today. If the workers are responsibly supporting their children on child support, the Obama-Biden plan would give those workers a benefit of $1,110” (Obama, 2008, para. 7). In Obama’s first federal budget outline he calls for making the EITC “permanent, as well as expanding the financial benefits for those who qualify” (Petrecca & Dugas, 2009).

The political stream consists of influences including electoral periods, partisan distribution, and ideological concerns of members of Congress and national and public moods. All of these factors influenced the setting of the EITC agenda. The national mood regarding welfare dependency and poverty reduction had a significant bearing on both political parties. Republicans and Democrats alike supported and continue to support the EITC because of its welfare reduction, poverty reduction and work incentive components. In summarizing these findings in relation to the Kingdon model of multiple streams it can be noted that all three streams serve an important function in agenda setting and policy making.

Theory of punctuated equilibrium. The second of the policy making models is the punctuated equilibrium model which seeks to explain the view that in the daily course, political processes are stable and function with small changes but occasionally experience large-scale departures from the past. In this section, the punctuated equilibrium model will be examined towards the explanation for both large and small policy changes that stem from the interactions between political subsystems and policy leadership decision making. Finally, the punctuated equilibrium model will be extended to public budgeting to provide a framework for an analysis of EITC policy formation. The EITC analysis will examine if exogenous factors influenced EITC policymakers in their decision making process.

The punctuated equilibrium theory "places the policy process on a double foundation of political institutions and boundedly rational decision-making" (Jones et al., 1999, p. 97) with an emphasis on issue definition and agenda setting. The central concept of the punctuated equilibrium model embodies three concepts: stasis or equilibrium, dominate relative frequency, and punctuation (Eldredge & Gould, 1972). According to the Encarta Dictionary (2009), Stasis refers to "a state in which there is neither motion nor development, often resulting from opposing forces balancing each other" (para.1), dominant relative frequency is the rate these events occur in a particular situation, and punctuation is radical change over a short duration.

Within the context of behavioral theory, the punctuated equilibrium model comprises equilibrium and punctuation periods as shown in Figure 10. Equilibrium is maintained by organizational structures fine-tuning through small incremental modifications to adjust for environmental changes without altering the structural foundation. Punctuation periods are the result of significant changes in the environment that disrupts a system's structural foundation, remains in disarray until the end of the period and decisions are made about which a new structure forms. (Gersick, 1991).

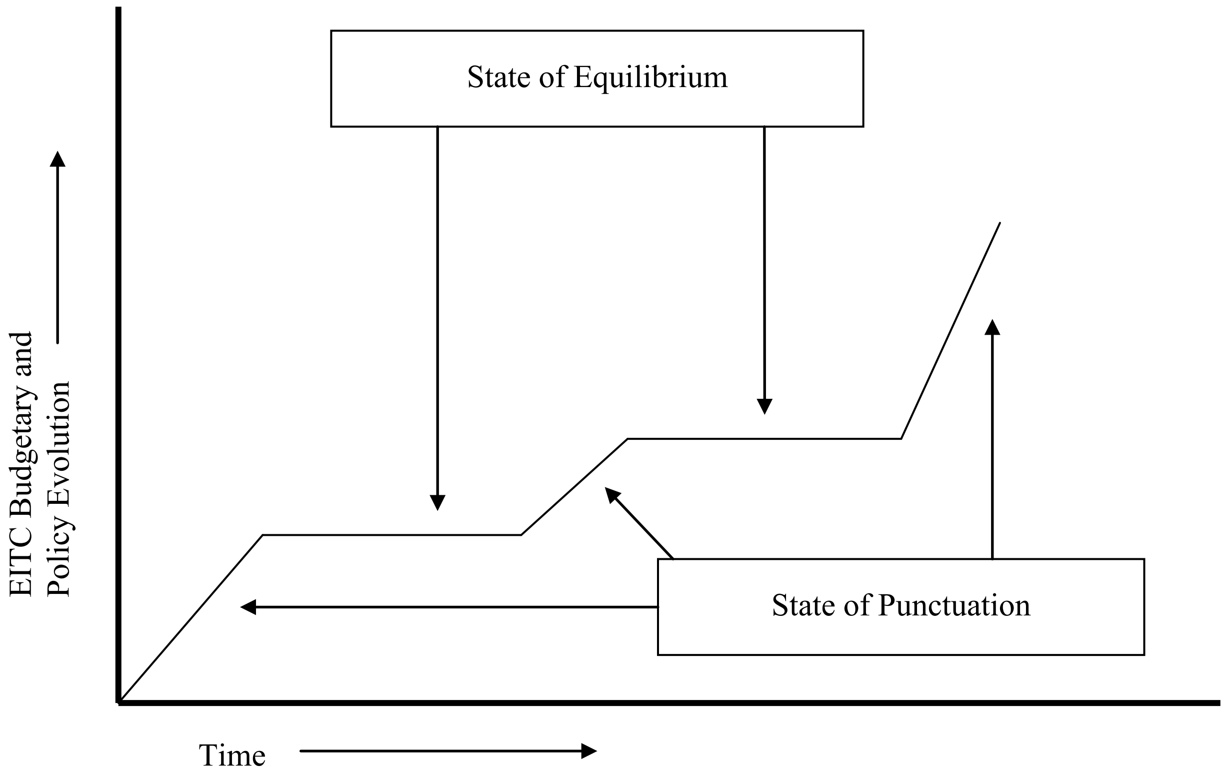

Figure 10. Punctuated equilibrium schematic.

Equilibrium, rather than punctuation characterizes most policy time periods. Crisis may occur which can cause dramatic changes in policy making across many areas of government. When this happens existing programs may be dramatically altered even if they have lain dormant for years. The viewpoint, then, “is that both stability and change are important elements of the policy process” (Jones et al., 1999, p. 97).

The punctuated equilibrium model emphasizes two related elements of the policy making process: defining an issue and setting an agenda. As Kingdon (1995) explained, issues are defined through a number of ways including indicators, focusing mechanisms, and feedback mechanisms creating an issue to become more prominent or fade away. Through many aspects of public discourse, policies can be either reinforced or questioned. When a policy is reinforced it can be expected that only modest change will occur. Questioning a policy's significance at the most basic level creates opportunities for dramatic reversals in policy outcomes.

The punctuated equilibrium model is based on agenda theory (Baumgartner & Jones, 1991). Decisions and policies are selected for implementation based on an official agenda. The foundation of the punctuated equilibrium model focuses on the process that an issue must take in order to be included on the agenda. The current agenda is maintained with small incremental changes by the very nature of the political structure. Where negotiations among multiple political parties, checks and balances among government branches, and non-governmental actors applying pressure through lobbying efforts, voting, lawsuits, etc., limits the chance of expansive or non-incremental policy change. Therefore, the political structure creates an official agenda that is stable and limits non-incremental change (Bosso, 1992; Cobb & Elder, 1983).

Institutional structures may contain any number of policy subsystems. A policy subsystem is an entity including many actors such as members of the public, elected officials, academics, special interest groups, etc., who advocate a position or issue. Simon (1985) noted that some decision making structures are able to handle multiple issues simultaneously while others are not. Policy subsystems allow for thousands of issues to be considered simultaneously within their respective community of experts (Jones, 1994).The disruption of a policy subsystem and the formation of new ones can greatly alter the composition of the policy agenda. An example of a policy subsystem could include advocates of those living in poverty. This subsystem consists of political leaders, religious groups, social policy advocates, non-profit organizations, and minority groups. When a subsystem that is advocating a policy issue losses interest or disbands there is a high probability that the agenda will change. Competition is fierce for attention and scarce resources and each subsystem must work in a cohesive manner to influence the policy agenda (Howlett & Ramesh, 2003).

A historical view of U.S. policymaking shows that policy monopolies can be constructed, and they can collapse. Their state has an influential effect on policymaking within their issue area (Jones et al., 1999). If opposition to an issue remains apathetic then the institutional and policy are likely to change slowly. As demands for change build, which may be resisted at first, may lead to a large intercession by those previously indifferent. The catalyst for more involvement requires a significant shift in the supporting policy image. While an issue is in a state of change, and new dimensions defined, new political actors and governmental institutions may try to exert their authority. Previously dominant policy monopolies are forced to share power with new institutional structures. These new institutions often establish a new equilibrium and will remain in place well after public and political involvements recede.

The policy venue and image as defined by Baumgartner and Jones (1993) can create rapid change, a surge that can break through the stasis state and status quo. Venue is defined through the locality or institution authorized to make decisions on a given issue. Agenda issues are often assigned to one specific jurisdiction but on rare occasions maybe assigned to another. For example, The PRWOA of 1996 shifted welfare reform from federal to state jurisdiction. Following tradition the EITC would have been under the auspices of either the U.S. Department of Labor or the U.S. Department of Health and Human Services but since it was passed as a tax reform bill it was assigned under the federal jurisdiction of the House Energy and Commerce Committee and the Senate Finance Committee and administered by the U. S. Department of the Treasury's Internal Revenue Service (IRS). Issue priority is dependent on the jurisdiction that has authority over it as each jurisdictional entity may view issues differently.

Policy images are a mixture of how an issue is perceived and discussed including both empirical information and emotive appeal. The factual content of any policy can be viewed in many different ways and affect different people in very different ways. Supporters will position an issue so that it is viewed in the most favorable terms and opponents will take a negative posture (Smith, 2008). Symbolism and simplistic terms may be used to position a policy in the public's eye. As an example of simplifying terms and image creation, in August of 1996, after 18 months of debate, Congress passed and President Clinton signed into law the PRWOA. The title suggests honor and opportunity instead of the reduction of public aid. This welfare reform legislation ended 61 years of AFDC guaranteed cash assistance to every eligible poor family with children. As part of the bill, much authority was turned over to the states to design eligibility and the conditions under which families would receive public aid. Congress tied a number of strict work requirements within the federal block grants to the states. Supporters of the bill heralded it as a reassertion of American's work ethic and opponents criticized the Act as a reinstitution of workhouses (Sawicky, 2002).

The degree to which an issue is linked to an image is largely related to the level of jurisdictional control on policy making decisions (Macey, 1992). As an issue's image changes, alternate venues may seek to adopt that issue as its own. If an issue has a clear distinctive image free of controversy the policies regarding that issue are typically more secure. Alternatively, as venues shift new debate may utilize new symbols shifting the image of an issue. The multiple venues in the American political system provide a number of avenues for policy entrepreneurs to advocate their case. For example, the NIT was unsuccessful as a welfare policy but when the EITC was enacted as a tax credit and facilitated through the US Department of Treasury's IRS instead of the US Department of Health and Human Services, EITC recipients were viewed less as drains on society and more as productive citizens. When a policy's venue or image changes, instability may occur providing an opportunity for large punctuated change. American policymaking is not described as suffering from gridlock, "punctuated equilibrium, rather than stability and immobilism, characterizes the American political system" (Baumgartner & Jones, 1993, p. 236).

Serial shift is the term used to "denote the episodic change from one set of preferences to a second in decision making" (Jones, 1994, p. 27). Jones explains that individual's process information in a sequential manner and that process is susceptible to serial shifts. Individual's preferences can rapidly change through the alteration of an individual's relative perception of the environment. Therefore, individuals are not only "rational, preference maximizing decision makers, but individuals are also problem solvers whose perceptions of issues are placed in context" (Jordan, 1999, p. 42). It is the human condition of contextual sensitivity to conflicting preferences that creates an environment for episodic shifts. A change of preference focus, caused by contextual sensitivity, can lead an individual to a preference shift to select an alternative or even an opposing preference.

Jones (1994) applied the serial shift concept to policymaking and its subsystems. Jones asserts that individuals and institutional decision making bodies are subject to similar limitations. As an example, branches of Congress are limited by the number of policy issues under consideration. Conflict exists between conflicting policy issues as each competes for valuable resources, time and attention in the agenda setting process. Policy making subsystems also experience contextual sensitivity to the priority their policy issue receives and its perceived image. Therefore, according to Jones (1994) episodic shifts can occur in decision making bodies due to existing conflicts.

Policy solutions and their alternatives may be considered to reside on a continuum from the greatest to least amount of government effort. For example, for many years poverty-reduction has centered on how to reduce the number of individuals receiving welfare while increasing their level of self-reliance. The potential alternative set consists of solutions on a line. As can be expressed by Figure 11 the effort is defined on how far from the status quo the federal government, responsible for social welfare policy and budgetary expenditures would set the subsidies and incentives.

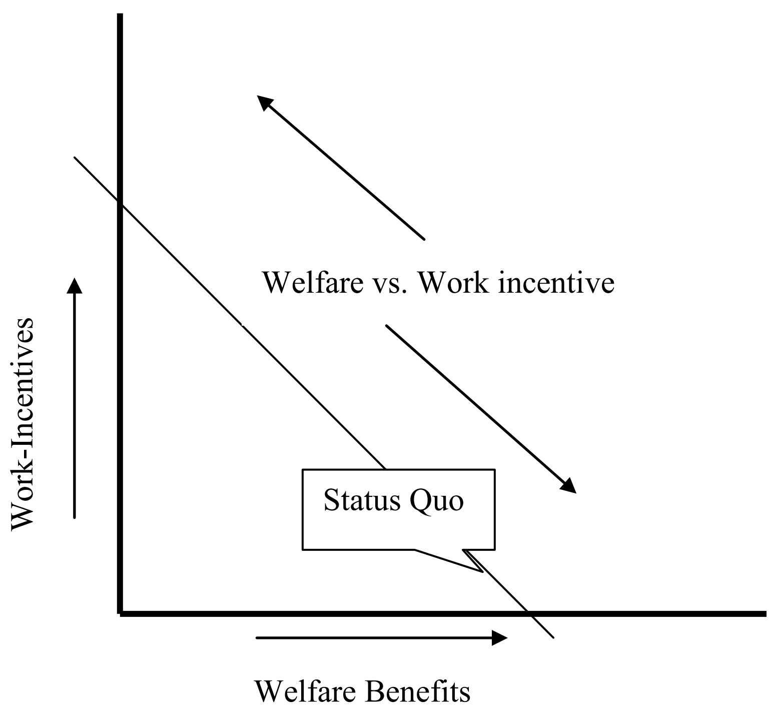

Figure 11. Policymakers trade-offs on EITC.

In this example many alternatives have been considered as political battles were waged around social policy. This is the case for welfare policy. Traditional reformers claimed that the welfare system undermined the work incentive (Mayer, 2008). Supporters claimed that welfare was targeted toward protecting mothers and children (Sznaider, 1997). To evaluate the effects of a policy proposal, “we must know with respect to what: . . . attributes of the issue are being evaluated?” (Jones & Baumgartner, 2005, p. 65). There are many ways a policy can be characterized and one example is by how liberal or conservative they are.

The practical range is conditional on the nature of the issue changing as policymakers define the trade-offs at any particular point in time. Debate in social policy concerns how to “characterize a policy problem rather than the solutions available once the problem is characterized” (Jones & Baumgartner, 2005, p. 64). All problems consist of multiple attributes with a few being relevant at a particular time. The attributes that some policy actors might consider relevant may be ignored as there is a low probability that the process can be completely inclusive.

Most public policy is characterized by the likelihood that there will be a set of complex attributes, while choices are made in a single dimension (Jones, 2007). Using a single dimension as the party leadership’s recommendation is often utilized to reduce a complicated issue to a single option to choose from. Public policy leadership’s labors to deal with welfare reform, reduce unemployment, and lift people out of poverty was simplified in the application of the EITC to the single dimension of *welfare to work*.

Punctuations and equilibrium in U.S. government spending. The punctuated equilibrium model directly influenced this research, which analyzed U.S. congressional budget authority punctuations (significant shifts) including many government agencies against three rival hypotheses: variations in the robustness of the postwar economy indicated by gross domestic product (GDP), partisan division evidenced by administrative and congressional party control, and public opinion as evidenced by the Stimson Mood Model. The current study used

GDP, the Stimson Mood Model, and the National Taxpayers Union Congressional Scorecard (NTU Scorecard) in lieu of party control.

Jones et al. (1999) provided empirical evidence that punctuations occur, not just in some government programs or subsystems, but throughout government. They argue that the three rival hypotheses investigating the economy, partisan division, and public opinion influencing punctuations are not statistically significant, whereas punctuations in government are. The result corresponds chiefly to the basic expectation that government is acting in the best interests of the public.

This study of EITC congressional budget authority (annual expenditures) tested Jones et al.'s (1999) hypothesis that punctuations do take place in policymaking against three plausible rival hypotheses. The EITC provides an excellent venue for testing this theory. The EITC represents significant federal annual expenditures, and has in excess of a 37-year historical record. If punctuations are present and the three rival hypotheses are not statistically significant it can be taken that government has conducted itself in the best interests of the general public.

True (1995) established that domestic policy issues influenced expenditures and that budgets were in fact influenced by policy. Jones et al. (1999) investigated the soundness of the punctuated equilibrium theory by charting the federal budget at a sub-function level for the years 1947 through 1995. They established that government expenditures were distinguished by more change than was depicted in literature. Additionally, they found that spending patterns were affected by two large scale punctuations. The first punctuation revealed vigorous growth from 1956 through 1974, and the second punctuation displayed restrained growth beginning in 1976.

Jones et al. (1999) examined the punctuation hypothesis versus three plausible competing hypotheses: "Changes in the robustness of the postwar economy; partisan divisions; and public opinion" (p. 2). The first, that punctuation periods merely reflect fluctuations in the vigor of the postwar economy. In prosperous times the government spends more and in lean times it spends less. Second, partisan division reflects spending eras. That the principle of Democratic control results in an expansion in the size of government and Republican control results in a slowdown or cutback in the size of government growth. Last, they compared punctuation with changes of public opinion. They found that the punctuation hypothesis endured every one of the rival hypotheses introduced individually or together.

The punctuated equilibrium model explains that national budget expenditures are based on reason and on occasion can show fundamental changes from the past. The administration and Congress are able to trigger pronounced budgetary modifications to multiple departments and agencies at the same time. The most general punctuations will be more comprehensive than punctuations that start from subsystems in departments, agencies and bureaus. Jones et al. (1999) determined that because of activity level it would be expected that more punctuation would be prevalent at the subsystem level of government than from the administrative and Congressional level.

In their study, Jones et al. (1999) utilized budget authority from the OMB as opposed to appropriations. Appropriations can consist of approximations and be deferred for several years after decisions have been made. Budget authority represents congressional decision making more closely. They concentrated on seventeen core governmental roles and separated them into sixty-two sets based on national purpose. On analyzing budget variations for all of the sixty-two budget sub-functions they discovered a leptokurtic and positively skewed distribution in contrast to a normal distribution.

A leptokurtic distribution denotes that the bulk of budget changes are incremental and that punctuations occur more frequently than compared to a normal distribution. Figure 12 visually demonstrates the difference between the leptokurtic and normal distributions. Jones et al. (1999) concluded that although leptokurtic distribution was common across all levels of government there was an ordinal distinction. More formerly theorized, punctuations were actually more pronounced at the subsystem level than at the administrative and Congressional levels. Subsystems showed increased leptokurtic more so than systems; agencies showed increased leptokurtic more so than the budget in total. They also established that leptokurtic distribution was present when investigating four administrative eras: Truman-Eisenhower, Kennedy-Johnson, Nixon-Ford-Carter, and Reagan-Bush-Clinton (Jones et al., 1999).

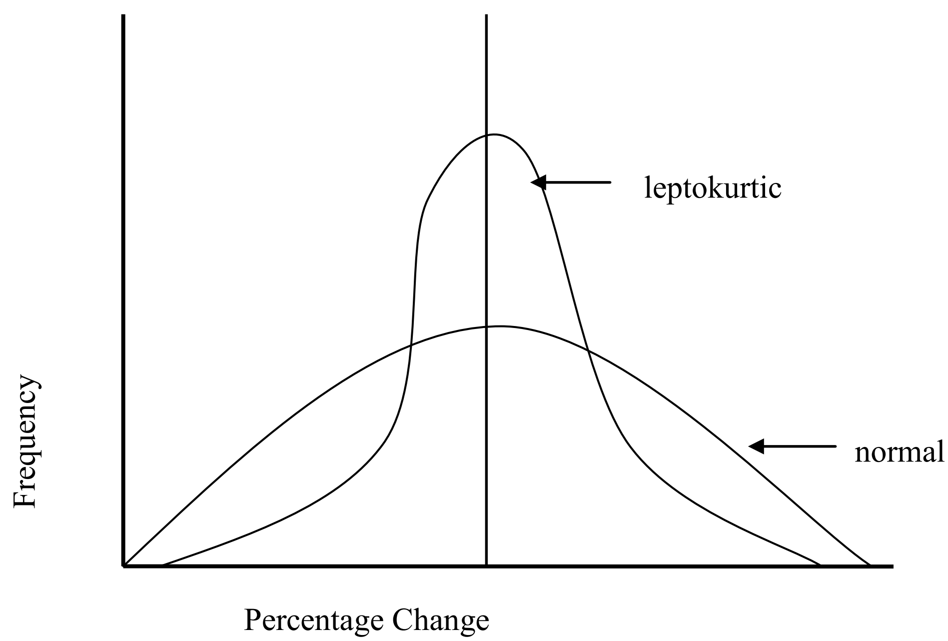

Figure 12. Leptokurtic distribution.

Several scholars have claimed that eventually comprehension about the role of government and its policy methods change (Kingdon, 1995). At times cultural nuances advocate a more proactive government and a redistribution of wealth, which may weaken economic growth. Alternatively, government efficiency and growth centered policies may be favored

(Webber & Wildavsky, 1986). These periods of shared understanding can change rather quickly and may influence some sub-functions or subsystems and not others (Baumgartner & Jones, 1993; Dodd, 1994). At the highest level, however, “shifts in attention, decisions, and policies can affect all categories of government spending simultaneously, although some categories may be affected more than others” (Jones et al., 1999, p. 25).

In conclusion, the punctuated equilibrium model was incorporated as an inclusive theory of public budgeting decision making. The punctuated equilibrium model includes both periods of punctuation and periods of little change and that punctuation happens as a product of the policy agenda setting process.

Policy punctuations: U.S. budget authority study. Jones et al. (1999) used tabulated U.S. budget authority from FY 1947 through FY 1995. They focused on domestic spending to circumvent internal and external stimulus that may influence spending for defense and international relations (True, 1995). Derived from the U.S. budget authority data, the researchers targeted sub functions rather than the complete budget as congressional budgeting is disaggregated or separated into its separate parts with both general and specific components. For this reason a sub function analysis should fairly accurately reflect the dynamics of policy decision making (Jones et al., 1999). The researchers found quantitatively that the postwar history of U.S. national government budgeting have been affected by two large-scale punctuations. The punctuations separate national spending into three epochs: postwar adjustment; restrained growth; and one of robust growth. The punctuation hypothesis was tested against three separate competing hypotheses; partisan control, changes in the robustness of the postwar economy, and public opinion.

Jones et al. (1999) determined that the political activism hypothesis did not clarify the rapid escalation in federal spending within the three distinct periods. A historical review of the budget record illustrates that there were expansions in the Eisenhower, Kennedy, Johnson, and Nixon presidencies, and a time of more moderation in the Ford, Carter, Reagan, Bush, and Clinton presidencies. The political activism hypothesis of larger increases under Democratic control was not supported.

The study tested the capital surplus hypothesis and found that it was not supported although variations in GDP influenced adjustments in mandatory budget authority. There was no convincing evidence that economic growth on its own accord shaped budgetary changes associated to three budgetary epochs. The results were uncertain that public opinion does or does not persuade public policy or public spending. What the researchers were able to determine from their research is that variations in the global mood of public opinion cannot explain the budgetary periods that were isolated. The three periods of government spending seem to correspond principally to widespread and generally shared expectations about the proper role of government (Jones et al., 1999).

Chapter 3: Data and Methodology

This data and methodology chapter describes datasets and research methodology for this study. It describes the research population and sample, explains the methods used to collect the data, and discusses the variables measured. This study is an investigation of the relationship between economic mobility of low-income workers and EITC policy. Particularly, this study examines the degree to which EITC respondents reported positive economic mobility uses for their EITC receipts and compares those results to specific respondent's demographics: saving, age, education, race, and being banked. The study also examines U.S. congressional budget policymaking at the EITC program level.

Design of Study

The intent of this research is to ascertain: (a) aspects of the EITC survey respondents' reported positive economic mobility uses of EITC receipts including their demographics, and (b) relating EITC annual changes in expenditure patterns of congruence or randomness between three outside influences. This study is qualitative in nature utilizing quantitative archival data.

Research Questions

The following research questions are addressed:

1. To what degree do EITC survey respondents report positive economic mobility uses for their EITC refunds
2. How are EITC survey respondents reported positive economic mobility uses related to their demographics: savings, age, level of education, race, and being banked?
3. What qualitative relationship exists, if any, between changes in EITC annual expenditures and annual changes in the U.S. economy?

4. What qualitative relationship exists, if any, between the EITC annual expenditures and U.S. federal partisan political control?
5. What qualitative relationship exists, if any, between the EITC annual expenditures and U.S. public policy mood?

Research Background and Methodology

This empirical research study indentified factors associated with economic mobility for EITC recipients and whether exogenous factors affect EITC policymaker's decisions. There were two separate and distinct datasets that makeup the composition of this study. The first dataset was used to identify factors associated with economic mobility for EITC recipients. The data analyzed, which included survey data from a sample of 2,252 EITC recipients mainly from the Orange and Los Angeles Counties of Southern California. A sample frame of the population came from EITC recipients who utilized the web based free tax and EITC preparation services provided by the Legal Aid Society of Orange County (LASOC) during 2006.

The second dataset of this study tested Jones et al., (1999) hypothesis that budgetary punctuations occur throughout government and that the punctuations are not driven by the economy, political partisan division, or public policy opinion. The significance of this was to examine the effects of outside influences on policymakers' decision making process toward EITC economic mobility policy. This study tested EITC annual expenditures against the effects of the economy, political partisan division, and public policy opinion. The dataset was used to qualitatively analyze the three propositions (economy, political partisan division, and public policy opinion) and test EITC policymaking against the punctuated equilibrium theory.

Research questions one and two explore EITC participant economic mobility and incorporate survey data drawn from a sample of 2,252 EITC recipients mainly from the Orange and Los Angeles Counties of Southern California. A sample frame of the population came from EITC recipients who have utilized the web based free tax and EITC preparation services provided by the LASOC. Along with the U.S. Department of the Treasury, LASOC developed an Interactive Community Assistance Network module, referred to as I-CAN! EIC (I-CAN!).

I-CAN! was supported by a grant by the IRS to help low-income wage earners qualify and receive the EITC. LASOC partnered with a number of organizations across the country so that I-CAN! would be available to as many people as possible. Areas I-CAN! was especially targeted were areas with a large concentration of working poor in urban and rural areas. I-CAN! was available through LASOC's website at several legal aid offices, twelve non-profit organizations, and kiosks that were concentrated in several states particularly Southern California.

All EITC survey data was collected via a secure web service. The survey took place between January and April 2006. The majority of the surveys were completed at centers located throughout Southern California and the remaining from Michigan, New York, Pennsylvania and Montana. Tax returns and surveys were filed electronically via the I-CAN! website to the IRS and respective state's tax agency. Upon IRS receipt and verification of the tax return, the IRS compiled the survey data and submitted the results to LASOC without taxpayer identifying markers. All I-CAN! participants were able to obtain free tax return preparation assistance from professionally trained volunteers at the centers provided by LASOC and other non-profit agencies.

Research questions three through five examine the aspects of EITC program expenditures for punctuations and equilibrium as described in the punctuation equilibrium model. To perform this examination a new dataset was constructed tabulating U.S. federal EITC budget expenditures for FY1976 through FY2007. FY2007 represents the most recent data for EITC annual expenditures. An EITC annual expenditure punctuation and equilibrium model will be tested against three rival assumptions: (a) changes in the strength of the American general economy, (b) congressional partisan political control, and (c) public policy opinion. EITC expenditures should exhibit patterns of change and stability consistent with theories of punctuated equilibrium over an extended period of time. For the punctuated equilibrium theory to hold, the three assumptions should show no affect on EITC annual expenditures

The three assumption datasets were constructed tabulating: (a) U.S. Gross Domestic Product (GDP) to represent the strength of the American economy, (b) National Taxpayers Union annual congressional voting scores (NTU Scorecard) describing congressional partisan political control, and (c) the Stimson's public policy mood model index (Stimson Measure) to illustrate public policy opinion.

The primary source for GDP is compiled by the U.S. Bureau of Economic Analysis and this study uses annual percentage changes in GDP adjusted for inflation. GDP is the most broadly used indicator of the overall size and health of a country's economy (CBS News, 2008, June 16). This study uses NTU Scorecard scores which analyze every congressional roll call vote taken that could affect the amount of federal taxes, spending, debt, and regulatory impact on fiscal policy. Congressional political partisan control calls for a democrat controlled Congress to increase government and spending more than a republican controlled Congress (Jones et al., 1999). The Stimson Measure is used for historical changes in aggregate public policy opinion. Stimson (2009) developed this measure "from an exacting examination and collation of numerous public opinion measures taken by polling organizations since the mid-1950s" (p.3).

Research question 1. The first research question asks: To what degree do EITC survey respondents report positive economic mobility uses for their EITC receipts? To answer the first research question, respondents' economic mobility was analyzed and compiled using their EITC survey data. The survey asked four economic mobility questions related to respondent's current practices: (a) do you have a bank or credit union account; (b) separate from the tax refund, do you currently save; (c) in the past have you used the EITC for economic mobility uses or consumption uses; and (d) what is the most important economic mobility or consumption use for your EITC refund.

Respondents' survey answers related to economic mobility indices were grouped by number according to: (a) if no economic mobility indices are indicated, assigned a zero; (b) if some economic mobility indices were indicated, assigned number one for one indices, two for two indices and three for three indices; and (c) if all four economic mobility indices were indicated, assigned number four. The data was tabulated for descriptive and summary statistics, sorted by assigned number and ranked from the highest to lowest percentile.

The study indicators of economic mobility include all forms of savings, debt repayment, and other forms of investment or expenditures that improve the chances for improved economic mobility. These indicators include all forms of work-related expenses as well as tuition payments, human capital building, medical bills, retirement, starting a business, emergency needs, and all related expenses for automobiles (Smeeding et al., 2000). Indicators that do not classify as economic mobility are classified as consumption. In the consumption bundle the study includes payments of regular bills and daily needs (rent, utilities, food, and groceries), purchases of household furniture, clothing, appliances, as well as other personal or regular household expenses.

Research question 2. The second research question asks: How are EITC survey respondents reported positive economic mobility uses related to their demographics: savings, age, level of education, race, and being banked? To answer the second research question, respondents' economic mobility was analyzed and compiled using the economic mobility results employed in research question one.

Research suggests several determinants of economic mobility. According to Carney and Gale (2000), economic mobility is a function of the traditional factors of savings, age, education, and marital status. They also found economically and statistically significant negative associations between economic mobility and the receipt of public assistance and being black. Sherraden (1991) includes race-ethnicity, being banked, and receiving public assistance as determinants of economic mobility.

Due to lack of available public assistance and marital status data from this study's EITC survey, this study did not examine receiving public assistance or marital status as determinants of economic mobility. Determinants of economic mobility were analyzed using the remaining variables: savings, age, level of education, race, and being banked. Data is tabulated for descriptive and summary statistics examining the relationship between respondents reported positive economic mobility uses and their demographics.

The first determinant considered as a factor in respondents economic mobility was savings. Research suggests that saving is positively associated with economic mobility. Studies of the general population and low-income workers confirm this association (Carney & Gale, 2000; Hogarth, Lee, & Anguelov, 2003; Schneider & Tufano, 2005). Blau and Graham (1990) also found a similar relationship between savings and economic mobility. Research also indicates that the demand for a families resources makes saving difficult for families with incomes near the poverty threshold (Hogarth, Lee, & Anguelov, 2003).

Research, empirical studies, and economic models have been used to ascertain three primary motivations to determine why individuals actually save: (a) emergencies, (b) economic mobility, and (c) retirement and bequests. In a study of the savings behavior of low-income tax filers, "Beverly, Schneider, and Tufano (2006) find that emergency savings is the second most common goal, and the most common was 'saving for an unspecified use'" (Barr, 2004, p.121). Carroll and Samwick (1998) found that reasons for emergency savings might explain up to 45% of the wealth of households. Kennickell and Lusardi (2003) using responses to survey questions found that many households, mainly low-income households, have not achieved their targeted emergency savings targets.

In addition to emergency saving, many Americans cite home purchase (4%), education (11%), and savings (5%) as saving goals for their family (Aizcorbe et al., 2003). Any savings, home purchases, small business development, and investments in education have been recognized in literature on economic mobility for their ability to produce added assets and additional personal advantages. Sherraden (1991) theorized that owning assets results in certain social, economic, and political benefits. Sherraden attributed these effects to the actual ownership of the assets themselves and not to levels of income.

The second determinant of economic mobility was education (Dynan, Skinner, & Zeldes, 2000). Economic mobility appears to create an orientation to the future for low-income savers. In an economic mobility demonstration project, survey respondents reported making plans for retirement and to further education (Moore et al., 2001). Beverly and Sherraden (1999) place the economic mobility circumstances of low-income workers in an institutional framework, stating that economic mobility is aided by formal saving plans, education, incentives, being committed, but that the poor have only limited access to these aids. Education also has an effect on economic mobility and on wealth through higher education levels associated with more wealth and increased rates of economic mobility (Bernheim & Scholz, 1993).

Using respondents reported education level, categories were broken down into six education groupings: (a) attained a sixth to ninth grade education, (b) attained a tenth to twelfth grade education, (c) attended trade school, (d) attended some college, (e) graduated from college, and (f) other.

The third economic mobility determinant was age. Older households have a tendency to acquire more assets (Blau & Graham, 1990; Hurst, Luoh, Ching, Frank, & Gale, 1998; Schneider & Tufano, 2005). Older households tend to save more but start to spend down assets in their retirement reducing their economic mobility (Friend & Blume, 1975). Beginning with Modigliani and Brumberg (1954), the Life Cycle Hypothesis holds that younger households have low or negative savings, they tend to increase savings during middle age prior to spending down savings at retirement. Hogarth, Lee, and Anguelov (2003) found that low-income workers tend to have positive savings at age 35.

Similar to Hogarth, Lee, and Anguelov (2003), this study considered economic mobility and age grouping by age categories. Using respondents reported age, categories were broken down into four groupings: (a) ages 18-24, (b) ages 25-44, (c) ages 45-64, and (d) 65 and older. There were no respondents over the age of 65 in this study as taxpayers 65 and older are not eligible for the EITC (Treasury, 2009, p. 1).

The fourth economic mobility determinant was race. Research of low-income families provides conflicting results when examining the economic mobility decisions by various racial groups. Throughout studies of economic mobility among racial groups the key determinant was savings. Grinstein-Weiss and Sherraden (2006) found that Hispanics saved more than Whites. Hogarth, Lee, and Anguelov (2003) found the opposite in that Hispanics saved less than Whites.

Survey data from the 1988 Survey of Income and Program Participation (SIPP) discusses the role of race in economic mobility. The survey found a sizeable gap between the net worth of White and Black families (Oliver & Shapiro, 1996). Research on the effects that race has on saving and economic mobility implies that, while income accounts for some of the effect, Black households maintain lower levels of wealth while controlling for other financial and demographic variables (Blau & Graham, 1990).

Examining economic mobility and race required placing survey respondents into one of four racial groups: White, Asian, Hispanic, and Black. The Hispanic group included participants who identified themselves as Hispanic or Latino.

The fifth determinant factor in economic mobility was being banked. Institutional theory (Sherraden, 1991) predicts that being banked will increase savings and economic mobility. Financial institutional relationships provide access to credit and incentives for households to accumulate assets. Historically, there has been a relationship between institutions that performed payment functions and savings functions. Increasingly, this link between payment functions and savings has been broken, particularly for low-income consumers (Schneider & Tufano, 2005). For low-income consumers payment functions are predominantly served by check cashing outlets or non-banks (Stegman, 1999).

The number of consumers that regard check cashing outlets as their primary financial institution varies. Barr (2004) reviewed a number of studies of the unbanked and found that of the unbanked 70% and another 17% primarily utilize check cashing outlets, with the number varying widely depending on the area studied. As suggested by Baker and Dylla (2007), all unbanked households which is roughly 10% of the population, use check cashing outlets as their primary financial service provider. Dunham (2001) estimated that as much as one quarter of banked low-income people living in Los Angeles and New York rely mainly on check cashing outlets.

Testing economic mobility and being banked required examining survey respondents' responses to the survey question on having a bank or credit union account. Respondents who indicated that they have checking or savings accounts are identified as being banked and those who indicated that they did not have a checking or savings account are identified as not being banked.

EITC Federal Expenditure Data

EITC federal expenditure data is the dependant variable used in research questions three through five. Data collection of EITC annual expenditures were compiled using official U.S. federal government statistical data. The first step in the data collection process required the tabulation of EITC expenditures for FY1975 through FY2007. These years represent the enactment year of the EITC to the most current available EITC expenditure data. FY1975 through FY2006 data were compiled from IRS, Statistics of Income Division, Individual Income Tax Returns for each year. FY2007 EITC expenditures were based on IRS preliminary statistical estimates. According to Strudler and Parisi (2009) a "few income and tax items tend to be understated in preliminary estimates; therefore, comparisons based on preliminary estimates for one year and final estimates for the previous year could be misleading" (p. 3).

Time series of annual budget data pose special problems for analyses because they represent lagged data and are non-stationary (Beck, 2001). For the purposes of this study, the assumption is made that it takes one year for partisan control to take effect, that is, legislation to be enacted and put into action. To account for the one-year lag effect the dependent control variable, EITC expenditures, will be shifted forward an additional year and the relationship reanalyzed. Non-stationary is controlled by using annual percentage changes of EITC expenditures.

All itemized budgetary EITC expenditure categories will be compiled to determine total annual EITC expenditures: (a) the portion of the EITC used to offset income tax before credits, (b) the portion of the EITC used to offset other taxes (such as the self-employment taxes), and (c) the refundable portion that is paid directly to taxpayers who have no tax liability against which to apply the EITC.

Annual percentage changes of EITC expenditures are calculated by [(current year-previous year) /previous year * 100]. Data points plotted in FY2005 is a percentage change between FY2004 and FY2005. Table 20 in Chapter 4 of this study presents the annual percentage changes in the EITC expenditures from FY1975 through FY2007. Because changes in annual percentage use information from only two time periods, changes in percentage can only show the change rate between those two periods. Positive percentage changes means the series of numbers is increasing. Large positive changes signify that the series is increasing robustly and rapidly. Small positive changes signify that the series is increasing gradually or faintly. Negative percentage changes signify that the number series declining. Large negative changes signify that the series is declining robustly or rapidly. Small negative changes signify that the series is declining gradually or faintly. For this study, large increases are defined as greater than 20% and large decreases are defined as more than negative 15%.

Research question 3. The third research question asks: What qualitative relationship exists, if any, between EITC annual expenditures and changes in the economy? To answer the third research question, two sets of data were examined: (a) the dependent variable, EITC annual expenditures are derived from the process described in EITC Federal Expenditure Data section, and (b) the independent variable, changes in the economy are defined by annual percentage changes in GDP data derived from the U.S. Bureau of Economic Analysis as noted in Table 21 in Chapter 4 of this study. Annual percentage changes of GDP are calculated by [(current year-previous year) /previous year * 100]. GDP is defined as the "output of goods and services produced by labor and property located in the United States" (U.S. Department of Commerce, 2009, para. 1).

Trend lines were used to determine patterns of congruence or randomness between annual percentage changes in EITC expenditures and GDP. Trend lines represent the long-term movement in time series data and demonstrate whether a particular data set has decreased or increased over time. Trend lines are frequently utilized to discuss whether a particular event or action caused observed changes at a particular point in time (Gliner & Morgan, 2000).

As the economy expands, politicians have only to allocate the additional resources increasing government expenditures. If the economy weakens, government expenditures either adjust by decreasing to a lower level or expenditures increase at a much slower rate. In this view, punctuations should be evident, and changes in government expenditures would follow and not precede changes in the national economy. If the economy drives the budget, "any patterns in budgeting should be associated with cyclical patterns of growth in the national economy" (Jones et al., 1999, p. 6). It is reasonable that the general health of the economy drives the budget in a democracy (Kamlet & Mowery, 1992).

Research question 4. The fourth research question asks: What qualitative relationship exists, if any, between the EITC annual expenditures and partisan political control? To answer this fourth research question two sets of data were examined: (a) the dependent variable, EITC annual expenditures are derived from the process described in EITC Federal Expenditure Data section; and (b) the independent variable, partisan political control data is derived utilizing the NTU Scorecard. The NTU Scorecard data includes a 1979-2008 annual index of roll call votes that were compiled by the NTU as noted in Table 3. The NTU is a non-profit advocacy and research organization located in Washington, D.C.

Table 3.

Basis for Calculating NTU Scores: 1979-2008

Year	No. House Votes	No. Senate Votes	Weights Assigned
1979	250	187	Equally
1980	203	192	Equally
1981	151	231	Equally
1982	197	180	Equally
1983	202	168	Equally
1984	207	109	Equally
1985	211	207	NTU Staff and member surveys
1986	219	123	NTU Staff and member surveys
1987	218	186	NTU Staff and member surveys
1988	164	92	NTU Staff and member surveys
1989	154	90	NTU Staff and member surveys
1990	215	107	NTU Staff and member surveys
1991	178	101	NTU Staff and member surveys
1992	199	100	NTU Staff and member surveys
1993	271	206	NTU Staff and member surveys
1994	237	109	NTU Staff
1995	168	262	NTU Staff
1996	172	151	NTU Staff
1997	171	138	NTU Staff
1998	146	137	NTU Staff
1999	183	144	NTU Staff
2000	227	135	NTU Staff
2001	155	194	NTU Staff
2002	139	115	NTU Staff
2003	287	269	NTU Staff

(continued)

Year	No. House Votes	No. Senate Votes	Weights Assigned
2004	182	93	NTU Staff
2005	201	169	NTU Staff
2006	199	109	NTU Staff
2007	427	182	NTU Staff
2008	182	104	NTU Staff

Note: Source National Taxpayers Union annual congressional voting studies for 1979-2008.

The NTU Scorecard includes all votes that had an effect on taxes, federal spending, federal debt, or other forms of regulation affecting federal fiscal policy. Each vote is weighted based on the level of its fiscal effect. A legislator's NTU Scorecard score in a specified year represents the weighted frequency by which they voted to increase or decrease taxes or spending. The scale for the NTU score ranges from 0 to 100 percent with a higher score signifies higher fiscal restraint in voting (NTU, 2009).

In an average year, the NTU Scorecard includes 203 congressional House votes and 153 congressional Senate votes. The current sample includes scores for each senator and representative during the 34-year period under consideration in this EITC study. There were 12,104 total votes examined for this study. Table 3 in Chapter 4 of this study shows the mean nominal NTU Scorecard scores aggregated from congressional House and Senate scores. Table 4 and Table 5 in Chapter 4 shows a synopsis of the controlling political party in both the U.S. House and U.S. Senate used in the NTU Scorecard scores. Trend lines will be used to determine patterns of congruence or randomness between EITC expenditures and NTU Scorecard scores.

Table 4

House Committee Party Ratios: 94th-110th Congress (1975-2009)

Year-Congress		Majority Party	House Chamber Majority Caucus Seats
2007-2009	110th	Democrat	53.6%
2005-2007	109th	Republican	53.3%
2003-2005	108th	Republican	52.6%
2001-2003	107th	Republican	50.1%
1999-2001	106th	Republican	51.3%
1997-1999	105th	Republican	52.4%
1995-1997	104th	Republican	52.9%
1993-1995	103rd	Democrat	59.3%
1991-1993	102nd	Democrat	61.4%
1989-1991	101st	Democrat	59.8%
1987-1989	100th	Democrat	59.3%
1985-1987	99th	Democrat	58.2%
1983-1985	98th	Democrat	61.8%
1981-1983	97th	Democrat	55.6%
1979-1981	96th	Democrat	63.7%
1977-1979	95th	Democrat	67.1%
1975-1977	94th	Democrat	66.9%

Note: Source Congressional Research Service Report for Congress (2009).

Table 5

Senate Committee Party Ratios: 94th-110th Congress (1975-2009)

Year-Congress		Majority Party	Senate Chamber Majority Caucus Seats	Total Majority Committee Caucus Seats
2007-2009	110th	Democrat	51.0%	52.4%
2005-2007	109th	Republican	55.0%	55.0%
2003-2005	108th	Republican	51.0%	52.7%
2001-2003	107th	Democrat	51.0%	52.4%
1999-2001	106th	Republican	55.0%	55.2%
1997-1999	105th	Republican	55.0%	55.2%
1995-1997	104th	Republican	53.0%	54.4%
1993-1995	103rd	Democrat	56.0%	55.9%
1991-1993	102nd	Democrat	57.0%	56.6%
1989-1991	101st	Democrat	55.0%	55.0%
1987-1989	100th	Democrat	54.0%	54.8%
1985-1987	99th	Republican	53.0%	53.8%
1983-1985	98th	Republican	54.0%	54.7%
1981-1983	97th	Republican	53.0%	54.2%
1979-1981	96th	Democrat	59.0%	58.6%
1977-1979	95th	Democrat	62.0%	61.2%
1975-1977	94th	Democrat	61.0%	60.9%

Note: Source Congressional Research Service Report for Congress (2009).

Research question 5. The fifth research question asks: What qualitative relationship exists, if any, between the EITC annual expenditures and public policy mood? To answer this fifth research question, two sets of data are examined: (a) the dependent variable, EITC annual expenditures are derived from the process described in EITC Federal Expenditure Data section; and (b) the independent variable, public policy mood data is derived from the Stimson Measure (Stimson 1999; Stimson, 2009; Stimson, Mackuen, & Erikson, 1995). The best-known "tool for studying historical change in aggregate public opinion is the Stimson's public mood measure" (Jones et al., 1999, p. 19).

The Stimson Measure was built on a rigorous collation and examination of many public opinion measures gathered by polling organizations since the mid-1950s. As noted in Table 23 in Chapter 4 of this study, the Stimson Measure determines the degree to which weighted aggregate totals of opinion measures vary over a set period of time. Best (1999) contends that Stimson's Measure taps primarily economic, government-spending, and size-of-government issues. Opposite of the NTU Scorecard, the Stimson Measure shows higher values as liberal and lower scores as conservative. High values indicate desires for stronger government, while low values reflect aggregate public preferences for weaker government (Stimson, 1999). Trend lines will be used to determine patterns of congruence or randomness between EITC expenditures and the Stimson measure.

Human Subject Considerations

This research utilizes data obtained in 2006 by LASOC from volunteer respondents. The actual research involves the analysis of pre-existing data. Data was gathered as part of LASOC's normal gathering of information evaluating the implementation of I-CAN! The gathering of this information is customarily considered part of I-CAN! standard business practices. Before this data was analyzed, all information which would make a respondent identifiable was removed. Numeric codes were assigned to each respondent. No information identifying specific participants was identifiable to the researcher, LASOC, or any participating organization or volunteer.

Submitting the EITC application was not contingent upon completing the survey. Through the web based survey application all responses were confidential. A number (code) from 1-2,252 was assigned to each respondent survey in order to protect identity. The data from the surveys were compiled by the IRS electronically and returned to LASOC without identifying markers such as name, address, and social security numbers.

All data was gathered online via secured server utilizing individual passwords chosen by respondents. There was no interaction between the respondent, other than online access and technical assistance by volunteers, and the LASOC information systems. Respondent results were provided directly to researcher in an electronic database. Only city and state demographic data was available to LASOC and researcher. The results of this analysis will not impact or affect the respondents of this study.

This study meets the criteria for exemption from full review by Pepperdine University's Institutional Review Board (IRB). It fully meets the requirements of the Federal Guidelines by presenting no more than minimal risk to human subjects. IRB clearance was obtained on June 26, 2009 from the Pepperdine University Graduate & Professional Schools Institutional Review Board.

Statistical Treatment of Data

Several statistical procedures were used in this analysis:

1. Qualitative analysis using quantitative archival data.

2. Trend line analysis to determine patterns of congruence or randomness.
3. Analysis and tabulation for descriptive and summary statistics.
4. To control for lagged data, data will be shifted one year to coincide with legislative policy enactment.
5. EITC non-stationary will be controlled for by using annual percentage changes of EITC expenditures and GDP.
6. Mean aggregated NTU annual senate and house congressional voting studies, 1979-2008.
7. Stimson's public mood measure for years 1975-2008 (Stimson, 1999).

Summary

This data and methodology chapter described the datasets and research methodology for the study. It described the research population and sample, explained the methods used to collect the data, and discussed the variables measured. This study examines: (a) the degree to which EITC respondents reported positive economic mobility uses for their EITC receipt; (b) compares those positive economic mobility results to specific respondent's demographics: saving, age, education, race, and being banked; and (c) examines U.S. congressional budget policymaking at the EITC program level.

Chapter 4: Results

This chapter presents the data analysis results guided by five research questions: (a) To what degree do EITC survey respondents report positive economic mobility uses for their EITC refunds; (b) How are EITC survey respondents reported positive economic mobility uses related to their demographics: savings, age, level of education, race, and being banked; (c) What qualitative relationship exists, if any, between changes in EITC annual expenditures and annual changes in the economy; (d) What qualitative relationship exists, if any, between the EITC annual expenditures and partisan political control?; and (e) What qualitative relationship exists, if any, between the EITC annual expenditures and public policy mood?

The study results revealed that of those 1,353 participants answering economic mobility questions 1,231 or (91.0%) participated in some economic mobility activity and 14.5% of the respondents participated in all economic mobility indicator activities. Descriptive statistics revealed that savings, education, race and being banked were factors associated with respondents practicing economic mobility. Descriptive statistics also revealed that age was not a factor associated with practicing economic mobility. Results from testing the punctuated equilibrium theory indicated that at the .05 level there was no significant relationship between EITC budgetary policymaking decisions and the economy, political partisan division, and public policy opinion.

Research Question 1

Descriptive statistical analysis help answer the question to what degree do EITC survey respondents report positive economic mobility uses for their EITC receipts? Are EITC refunds utilized to pay bills, for new purchases, or are the credits mainly saved for later use and economic mobility? Is the EITC responsible for helping to finance current consumption needs, or does the credit influence investment and savings behavior, assisting low-income individuals build assets and improve theirs and their families' economic mobility?

Approximately 10.0% of the participants in the study had used their past EITC refund for economic mobility use only. More than 53% of participants had used their past EITC refund for consumption use only. In this sample, 33.6% of participants reported using their past EITC refund for both economic mobility and consumption use. The highest overall economic mobility use for past EITC use was automotive expenses at 31.1% followed by education (14.3%) and medical expenses (11.5%). The highest overall consumption use was for personal use (34.7%), followed by rent (29.9%) and furniture (13.3%).

When asked what their first priority use for the current EITC was, 81.2% of respondents had at least one priority use for the EITC refund. These responses indicated that debt repayment was the single most important use of the EITC for 39.2% of respondents, household expenses were the second most important use at 18.7%, and automotive expense was the third most important use at 9.0% of respondents reporting. Overall 60.2% of participants reported their first planned priority use of current EITC refunds for economic mobility uses and 39.8% reporting consumption uses as their first priority.

Historically, respondents reported that only 10% used their past EITC refunds for economic mobility use only and 50% used the refund for consumption only purposes, and 34% used the refund for both economic mobility and consumption use. This shows that planned uses for the EITC refund may differ considerably from EITC recipients' actual use of the refund. These results also shed light on the prospects that low-income workers have desires for improving their economic mobility but may not have the resources to do so.

The first research question asked: To what degree do EITC survey respondents report positive economic mobility uses for their EITC refunds? If a participant's survey record included owning a bank or credit union account, currently saves, previously used their EITC for economic mobility, and indicated that their current EITC was for economic mobility uses, the participant was identified as practicing economic mobility. Table 6 provides descriptive statistics for participant's indicators of practicing economic mobility.

Table 6

Respondents Economic Mobility Indicators

	Cases	%
Economic Mobility (EM) Respondents		
No Current Indicators of EM	122	9.0
One Current Indicator of EM	279	20.6
Two Current Indicators of EM	383	28.3
Three Current Indicators of EM	373	27.6
All Four Current Indicators of EM	196	14.5
Total Current EM Respondents	1353	100.0
	Cases	%
Types of Current and Planned EM Indicator		
Own a Bank or Credit Union Account	925	71.8
Currently Save	826	64.7
Previously used the EITC for EM use	520	36.1
Listed Important EM use for EITC refund	678	59.9
Plan to Save Portion of EITC	820	65.2
Want to Save	1209	96.6
Total Current and Planned EM Indicators	4977	n.a.

Of the 2,252 participants in this study, 1,353 (60.1%) responded to questions related to current economic mobility practices and 899 participants (39.9%) did not respond to economic mobility questions. Of the 1,353 participants responding, 1,231 (91.0%) participated in some economic mobility activity and 122 participants (9.0%) reported no indicators of economic mobility. Within the current economic mobility category the largest group, 383 respondents (28.3%) reported participating in two current economic mobility activities. The smallest group reporting, 196 participants (14.5%) practiced all four indicators of economic mobility.

The survey also asked participants to specify both their current and planned economic mobility activities. Respondents could, and usually did, have more than one current and planned economic mobility activity. Because the current economic mobility may differ from the respondent's intent or desires to practice economic mobility due to personal economic circumstance, these questions were designed to produce as much detail about the categorical breakdown of EITC recipients as possible.

Of the survey's 4,977 total respondents' indicators of economic mobility, 925 participants (71.8%) own at least one bank or credit union account, which was the most common current indicator reported. In addition, there were 520 participants (36.1%) that indicated previously using the EITC for an economic mobility use. The largest category in the current and planned economic mobility with more than 1,200 respondents (96.6%) indicated wanting to save. This in addition to the response of 826 participants (64.7%) reporting an indicator of currently saving highlights the desire of EITC recipients to increase their economic mobility participation particularly through saving.

As noted in Table 7, when survey participants were asked if they currently saved separate from the EITC, 138 respondents (10.8%) saved on a regular basis, 689 respondents (53.9%) saved when they had extra money, and 451 respondents (35.3%) did not save. Alternatively, 1,209 respondents (96.6%) indicated wanting to save, while 850 respondents (71.3%) felt that they could not save enough to make a difference.

Table 7

Separate from the EITC, Respondents Saving Habits

Current Saving Habits	Cases	Percentage
Save on a regular basis	138	10.8
Save when have extra money	689	53.9
Do not save	451	35.3
Total Saving Habits	1278	100.0

Desire to Save	Strongly Agree (%)	Agree (%)	Disagree (%)	Strongly Disagree (%)
Want to Save	59.5	37.1	2.2	1.2
Feel that cannot save enough to make a difference	31.3	40.0	23.5	5.2

An important economic mobility determinant is if a respondent planned to save and what were their planned uses for those savings (see Table **8**). Among the sample of EITC respondents, 343 respondents (23.8%) did not plan to save. The largest category for planned savings was 567 respondents (39.3%) who were only planning to save for economic mobility uses. Saving only for consumption uses was the smallest category with 145 respondents (10.1%). Respondents reported almost a 2-1 ratio in favor of saving for any economic mobility use versus saving for any consumption use.

Table 8

If Respondent Saved, Planned Use for Savings

Save For	Cases	Percentage
Any Economic Mobility Use	956	66.3
Any Consumption Use	532	36.9
Total	NA	NA

Save For	Cases	Percentage
None	343	23.8
Economic Mobility Use Only	567	39.3
Consumption Use Only	145	10.1
Both	386	26.8
Total	1441	100.0

Table **9**, represents the responses of 1,188 participants of which 95.2% reported having a most important priority use for the EITC. Of the most important priority use 443 respondents (39.2%) indicated that the economic mobility indices of paying debt was the single most important use for the EITC. The second and third most important use of the EITC refund were for consumption needs with 213 respondents (18.8%) citing other, and 212 respondents (18.7%) citing household expense. Approximately 60% of the respondents reported the most important use for their EITC refund was for economic mobility uses and approximately 40% reported their most important use was for consumption.

Table 9

Most Important Use of Anticipated EITC Refund

Economic Mobility Use	Cases	Percentage
Automotive	102	9.0
Education	37	3.3
Medical Expenses	31	2.7
Pay Debt	443	39.2
Saving	68	6.0
Total Economic Mobility Use	681	60.2
Consumption Use	**Cases**	**Percentage**
Fun	19	1.7
Household Expense	212	18.7
Send to Family	6	0.6
Other	213	18.8
Total Consumption Use	450	39.8
Total Most Important Use	1131	100.0

Survey participants were asked, if they received the EITC in the past how did they use the refund? Table 10 shows how almost half of the respondents used past EITC refunds for consumption use only and 10% responded for economic mobility use only, 33.6% used the refund for both economic mobility and consumption. The highest use for each category was 31.1% for automotive expense and 34.7% for personal use. The *Personal Use* category might show misleading results as respondents may interpret personal use as paying debts or other expenses that may fall into the economic mobility category.

Table 10

Past EITC Refund Uses

Economic Mobility Use	Cases	Percentage
Automotive	370	31.1
Computer	114	9.6
Purchase Home	30	2.5
Property Tax	26	2.2
Medical Expenses	137	11.5
Education	170	14.3
Business Expense	17	1.4
Total	864	n.a.
Consumption Use	Cases	Percentage
Rent	355	29.9
Appliance	152	12.8
Furniture	158	13.3
Personal	412	34.7
Does Not Apply	447	37.6
Total	1524	n.a.
Past EITC Refund Use	Cases	Percentage
None	31	2.6
Economic Mobility Use Only	119	10.0
Consumption Use Only	639	53.8
Both	399	33.6
Total	1188	100.0

Research Question 2

The second research question asked: How are EITC survey respondents reported positive economic mobility uses related to their demographics: savings, age, level of education, race, and being banked? Investigation focused on participant's decision to practice economic mobility as evidenced on their EITC 2006 survey record. This study identified participants as practicing economic mobility or not practicing economic mobility, with an indicator of economic mobility as the dependent variable. The study examined economic mobility as a function of savings, age, level of education, race, and being banked.

Descriptive statistical analysis indicated that the act of saving was a factor affecting participants practice for economic mobility. Savers were almost three times more likely to practice three or more indicators of economic mobility, and almost two times more likely to practice two or more indicators of economic mobility than non-Savers. Sixteen percent of the respondents did not practice savings although 96.6% of all respondents expressed wanting to save.

Contrary to what was anticipated, there was not a significant association between economic mobility and age. Descriptive statistics revealed that 92.4% of participants in the 18-24 age group practiced economic mobility, 95.0% of respondents in the 25-45 age group practiced economic mobility, and 94.7% in the 46-65 age group practice economic mobility. In addition, 46.2% of respondents in the 18-24 age group, 48.4% of respondents in the 25-45 age group, and 48.1% of respondents in the 46-65 age group practice three or more economic mobility indicators.

The variance between any of the age groups practicing all indicators, or three or more indicators of economic mobility was marginal as the variance between all age categories for practicing economic mobility was 2.6%. This is contrary to economic theory as age was not a determinant for economic mobility in this study. Economic theory predicts that older adults are more likely to save (Modigliani & Brumberg, 1954) and prior studies of low-income families found that older adults were more likely to save (Carney & Gale, 2000; Hogarth, Lee, & Anguelov, 2003).

A possible explanation for the lower than expected level of practicing economic mobility in the over 46 age group is that this group may disproportionately represent chronically poor families who lack the means to practice economic mobility. Gabriel (2006) found that of EITC recipients in the Twin Cities of Minnesota, that among those with income below the poverty threshold, participants over 50 were the poorest of the poor with an average income that was nearly $1,000 less than others ($5,494 versus $6,462). A related explanation for the lack of saving among those over 50 is that they may disproportionately represent *long-term* EITC recipients who view EITC refunds (or other tax transfer payments) as permanent income (Dowd, 2005). Economic theory suggests that there is no incentive to save if recipients believe tax transfer payments will continue over their remaining life.

Level of education was another factor increasing the probability of practicing economic mobility. Descriptive statistics indicate that respondents with trade school, some college, or graduated college were more than two and a half times more likely to practice three or more economic mobility indicators than respondents with a 6-9 grade education, and one and a half times more likely to practice three or more economic mobility than respondents with a 10-12 grade education. Respondents with a 6-9 grade education were more than six times more likely to not practice economic mobility than respondents with some college, and more than three times more likely to not practice economic mobility than respondents who graduated college and almost twice as likely to not practice economic mobility as respondents who attended trade school. This result highlights the importance of education in the practice of improving one's economic mobility.

Race was another factor for practicing economic mobility. Respondents who indicated being Asian had the highest indication of practicing economic mobility at 90.5% in two or more indicators and 61.9% in three or more indicators. White respondents reported 84.0% participation in two or more indicators and 55.2% in three or more indicators of economic mobility. Black respondents reported 79.4% in two or more indicators and 54.4% in three or more indicators of economic mobility. Hispanic respondents reported practicing 75.1% in two or more indicators and 53.5% in three or more economic mobility indicators.

Being banked was the most influential factor affecting participant's practice of economic mobility. Banked participants were four and a half times more likely to participate in three or more economic mobility indicators, and two and a quarter times more likely to participate in two or more economic mobility indicators that unbanked participants. Not being banked participants were more than three and a quarter times more likely to have only one indicator of economic mobility than banked participants. These results underscore the critical role of financial institutions in facilitating economic mobility.

Approximately 25% of the participants in this study did not have a bank or credit union account, which exceeds the estimate of unbanked families in the nation. Beverly et al. (2004) estimated that 12% of families do not have a bank account and Carnery and Gale (2000) estimated that 20% do not have a bank account. Out of the total participants, 96.6% expressed interest in savings in a financial institution. Besides the immediate benefits of lower check cashing and bill paying fees, relationships with banks have long-term antipoverty effects by providing access to credit, facilitating home and automobile purchases, and offering other financial services for building assets and economic mobility (Bates & Dunham, 2003).

If a participant's survey record included: (a) owning a bank or credit union account, (b) currently saves, (c) indicated that their previous EITC was used for economic mobility uses, and (d) their most important use for the EITC is for economic mobility than the participant was identified as practicing economic mobility. The participant was identified as practicing economic mobility by setting the indicator of economic mobility to the number of indices they participated in. If a participant's survey record did not include any economic mobility indices, the participant was identified as *no current indicators of EM*. The same format was followed for those representing one indicator as o*ne current indicator of EM*, and so forth up to all four indicators reported as *all four current indicators of EM*. As previously noted in research question one, Table 6 provides descriptive statistics for the indicators of practicing economic mobility.

The first independent variable considered as a factor in the economic mobility decision was savings. Saving groups were determined as currently saving or not saving. Table 11 provides descriptive statistics for these saving groups.

Table 11

Saving Groups for Practicing Economic Mobility

	Number of Economic Mobility Indicators					
Indicators	0 (Cases)	1 (Cases)	2 (Cases)	3 (Cases)	4 (Cases)	Total (Cases)
Savers	0	81	267	282	197	827
Non-Savers	72	175	114	90	0	451
Total	72	256	381	372	197	1278

(continued)

	Number of Economic Mobility Indicators					
	(%)	(%)	(%)	(%)	(%)	(%)
Savers	0.0	6.3	20.9	22.1	15.4	64.7
Non-Savers	5.7	13.7	8.9	7.0	0.0	35.3
Total	5.7	20.0	29.8	29.1	15.4	100.0

Over 64% of respondents were savers, and the remaining (35.3%) were non-Savers. The largest grouping of Savers (22.1%) had three economic mobility indicators and represented the largest percentage of all respondents. Among the non-Savers, 175 respondents (13.7%) had one economic mobility indicator representing the largest number of non-Savers. Additional descriptive statistics show that the highest concentration of Savers as a group (66.4%) had either two or three economic mobility indicators. The highest concentration of non-Savers as a group (64.1%) had predominately one or two indicators of economic mobility. Savor's showed a higher propensity to practice economic mobility.

The second independent variable considered as a factor in the economic mobility decision was age. Using participants' survey response records, age was determined and analyzed in three groups: (a) 18-24, (b) 25-44, and (c) 45-64. There were no respondents age 65 or over. Table 12 provides descriptive statistics for these age groups.

Table 12

Age Groups for Practicing Economic Mobility

	Number of Economic Mobility Indicators					
Indicator	0 (cases)	1 (cases)	2 (cases)	3 (cases)	4 (cases)	Total (cases)
18-24	12	26	47	53	20	158

(continued)

	Number of Economic Mobility Indicators					
25-45	39	144	222	240	140	785
46-65	10	41	46	60	30	187
Total	61	211	315	353	190	1130
	(%)	(%)	(%)	(%)	(%)	Total (%)
18-24	1.1	2.3	4.2	4.7	1.8	14.1
25-45	3.5	12.7	19.6	21.2	12.4	69.4
46-65	0.8	3.6	4.1	5.3	2.7	16.5
Total	5.4	18.7	27.9	31.2	16.8	100.0

The majority of respondents 785 (69.4%) were in the 25-45 age group. Age group 46-65 had 187 respondents (16.5%), and age group 18-24 had the least with 158 respondents (14.0%). There were 53 respondents in the 18-24 age group with three indicators of economic mobility which represented the highest percentage (33.5%) within a specific age group. Economic theory suggests that those in the 46-65 age group should have the highest overall percentage for practicing economic mobility. In this study, 95% of respondents in the 25-45 age group reported practicing economic mobility while 94.7% of the 46-65 age group and 92.4% of the 18-24 age group practiced economic mobility. The percentage difference between any one age group and another is at most 2.6% variance for practicing economic mobility. The same results of no significant difference held for examining having two or three economic indicators.

The third independent variable considered as a factor in the economic mobility decision was level of education. This study identified six education groups: (a) grades 6-9, (b) grades 10-12, (c) attended trade school, (d) attended some college, (e) graduated college, and (f) other.

Table 13 provides descriptive statistics for the level of education groups while Table 13 provides descriptive statistics for level of education groups as a percentage.

Table 13

Level of Education Groups for Practicing Economic Mobility

	Number of Economic Mobility Indicators					
Indicator	0 (cases)	1 (cases)	2 (cases)	3 (cases)	4 (cases)	Total (cases)
6-9	7	21	14	5	5	52
10-12	30	91	96	107	40	364
Trade School	6	16	20	33	9	84
Some College	10	57	128	147	105	447
College Grad.	7	20	48	55	33	163
Other	8	10	7	7	2	34
Total	68	215	313	354	194	1144

Table 14

Percentage Level of Education Groups for Practicing Economic Mobility

	Percentage of Economic Mobility Indicators					
Indicator	0 (%)	1 (%)	2 (%)	3 (%)	4 (%)	Total (%)
6-9	0.6	1.9	1.2	0.4	0.4	4.5
10-12	2.6	8.0	8.4	9.4	3.5	31.9
Trade School	0.5	1.4	1.7	2.9	0.8	7.3
Some College	0.9	5.0	11.2	12.8	9.2	39.1

(continued)

	Percentage of Economic Mobility Indicators					
College Grad.	0.6	1.7	4.2	4.8	2.9	14.2
Other	0.7	0.9	0.6	0.6	0.2	3.0
Total	5.9	18.9	27.3	30.9	17.0	100.0

Respondents with some college comprised the largest education group with 447 participants and accounted for 39.1% of the total followed by 364 trade school participants accounting for 31.9% of the education group. When comparing within each education level grouping, those with some college had the highest level of indicators of economic mobility with 85.0% with two or more indicators and 56.4% respondents with three or more indicators of economic mobility. The group with the second highest level of economic mobility indicators was college graduates with 83.3% respondents with two or more indicators and 53.9% respondents with three or more indicators of economic mobility. Respondents from the 6-9 grade level represented the lowest percentage of economic mobility with 46.1% with two or more indicators and 19.2% respondents with three or more indicators or economic mobility. Descriptive statistics show that education is a factor in practicing economic mobility.

The fourth independent variable considered as a factor in the economic mobility decision was race. This study identified four racial groups: White, Asian, Black, and Hispanic. The Black study group included participants who identified themselves as African American or African. The Hispanic group included participants who identified themselves as Hispanic or Latino. Table 15 provides descriptive statistics for the racial groups.

Table 15

Racial Groups for Practicing Economic Mobility

	Number of Economic Mobility Indicators					
Indicator	0 (cases)	1 (cases)	2 (cases)	3 (cases)	4 (cases)	Total (cases)
White	10	39	88	115	54	306
Asian	0	2	6	9	4	21
Black	1	13	17	23	14	68
Hispanic	8	21	25	35	27	116
Total	19	75	136	182	99	511
Percentages	(%)	(%)	(%)	(%)	(%)	Total (%)
White	2.0	7.6	17.2	22.5	10.6	59.9
Asian	0.0	0.4	1.2	1.8	0.8	4.2
Black	0.2	2.5	3.3	4.5	2.7	13.2
Hispanic	1.6	4.1	4.9	6.8	5.3	22.7
Total	3.8	14.6	26.6	35.6	19.4.0	100.0

Whites comprised the largest racial group reporting with 306 respondents and accounted for approximately 60% of those practicing economic mobility. Of all groups, Asian respondents reported the highest level of economic mobility with 90.5% reporting two or more indicators and 61.9% respondents reporting three or more economic mobility indicators. The Hispanic respondents reported the lowest level of economic mobility with 75.1% with two or more indicators and 53.5% respondents with three or more economic mobility indicators. White respondents reported 84.0% with two or more indicators and 55.2% with three or more economic mobility indicators. Black respondents reported 79.4% with two or more indicators and 54.4% with three or more economic mobility indicators. Race was a more dramatic indicator at two or more indicators with a variance of 15.4% between the highest and lowest reporting category. Reporting three or more categories was not as significant at 8.4% between the highest and lowest reporting.

The last independent variable considered as a factor in the economic mobility decision was being banked. Having at least one bank or credit union account identified participants as being banked. Table 16 provides descriptive statistics for this variable. Out of the 1,288 participants responding to being banked in this study, 926 respondents (71.9%) were banked and 28.1% were not banked. Among those who were banked, 87.2% had two or more economic mobility indicators and 56.6% had three or more indicators. Among those who were not banked, 23.5% had no indicators of economic mobility, 40.1% had one indicator, 36.4% had two or more indicators and 12.4% had three or more indicators of practicing economic mobility. Being banked is a determinant on practicing economic mobility.

Table 16

Being Banked Groups for Practicing Economic Mobility

	Number of Economic Mobility Indicators					
Indicator	0 (cases)	1 (cases)	2 (cases)	3 (cases)	4 (cases)	Total (cases)
Banked	0	119	283	327	197	926
Not Banked	85	145	87	45	0	362

(continued)

Total	85	264	370	372	197	1288
	(%)	(%)	(%)	(%)	(%)	Total (%)
Banked	0.0	9.2	22.0	25.4	15.3	71.9
Not Banked	6.6	11.3	6.8	3.4	0.0	28.1
Total	6.6	20.5	28.8	28.8	15.3	100.0

In addition to qualitative measures, a generalized linear model was use to analyze if race, age, and education could predict the response variable-economic mobility. From univariate analysis of the three independence variables, Table 17 and Table 18, showed results that race and age categories cannot predict economic mobility. However, Table 19 showed results that education level is a predictor of economic mobility. Compared with 6-9th grade, the higher the education level, the more economic mobility they have. No multivariate analysis was needed for this study.

Table 17

Analysis of Maximum Likelihood Parameter Estimates – Race

Parameter		DF	Estimate	Error	Limits		Chi-Square	Pr > Chi Square
Intercept		1	2.5296	0.0619	2.4084	2.6508	1672.54	<.0001
Race	Asian	1	-0.0513	0.2332	-0.5085	0.4058	0.05	0.8258
Race	Black	1	0.0396	0.1474	-0.2492	0.3285	0.07	0.7880
Race	Hispanic	1	-0.0948	0.1181	-0.3262	0.1366	0.65	0.4219

(continued)

Race	White	0	0.0000	0.0000	0.0000	0.0000	-	-
Scale		1	1.0785	0.0339	1.0141	1.1469		

Table 18

Analysis of Maximum Likelihood Parameter Estimates – Age

Parameter		DF	Estimate	Standard Error	Wald 95% Confidence Limits		Wald Chi-Square	Pr > ChiSq
Intercept		1	1.0000	1.1205	-1.1961	3.1961	0.80	0.3721
Age	18-24	1	1.3000	1.1240	-0.9029	3.5029	1.34	0.2474
Age	25-45	1	1.3827	1.1212	-0.8148	3.5801	1.52	0.2175
Age	46-65	1	1.3155	1.1235	-0.8864	3.5175	1.37	0.2416
Age	65 +	0	0.0000	0.0000	0.0000	0.0000	-	-
scale		1	1.1205	0.0235	1.0753	1.1676		

Table 19

Analysis of Maximum Likelihood Parameter Estimates – Education

Parameter		DF	Estimate	Standard Error	Wald 95% Confidence Limits		Wald Chi-Square	Pr > ChiSq
Intercept		1	1.6154	0.1493	1.3227	1.9081	116.99	<.0001
Education	Coll. Grad	1	0.9064	0.1718	0.5697	1.2430	27.84	<.0001
Education	Some Coll.	1	1.0122	0.1579	0.7027	1.3216	41.10	<.0001

(continued)

Education	Trade School	1	0.6738	0.1905	0.3005	1.0471	12.51	0.0004
Education	10-12th	1	0.5323	0.1600	0.2187	0.8459	11.07	0.0009
Education	6-9th Grade	0	0.0000	0.0000	0.0000	0.0000	-	-
Scale		1	1.0770	0.0231	1.0327	1.1231		

Isolating EITC Expenditure Punctuations

Using a new dataset on EITC expenditure authority, the study showed quantitatively that the 37-year history of the EITC annual changes in expenditures is separated into five distinct periods of punctuation. After the enactment of the EITC in 1975 there was a decline in growth of the EITC program until 1979 when a 96% increase in annual EITC expenditures was approved under President Carter. In the 4 years preceding 1979 the economy was experiencing robust growth averaging 11.2% GDP, growth and public policy mood was moderate. Under President Reagan the EITC had significant expansions in 3 separate years (1985, 1987, & 1988) with years 1987 and 1988 grouped as one singular punctuation. In the years leading up to these expansions, the economy, partisan political control, and public policy mood all are classified as moderate.

The third punctuation occurred under President Bush's administration in 1991 with a 47% percentage change in annual EITC expenditures. The state of the economy was moderate leading up to 1991 but was only at 3.3% growth for 1991 and both political partisan control and public policy mood was both liberal. The last punctuation occurred in 1994 and 1995 under President Clinton with 36% and 23% EITC annual percentage growth. The economy was moderate leading up to Clinton's EITC increase and the public policy mood was liberal but political policy control was strongly conservative. This study provides empirical evidence that punctuations occur in the EITC program. Results from testing the punctuated equilibrium theory indicated that there was not a significant association between outside influence from the economy, political partisan division, and public policy opinion on EITC policymaking decisions.

Descriptive statistics. Table 20 presents the median of annual percentage changes in EITC expenditures from FY1975 through FY2007. Table 20 shows that the typical pattern of EITC expenditures during the period is for EITC expenditures to grow; minor exceptions are during the later Ford, early Carter, and Reagan presidencies and slightly during the Clinton years.

Table 20

EITC Expenditures Annual Percentage Change

Year	EITC % Change	Year	EITC % Change	Year	EITC % Change
1975	na	1986	-4	1997	5
1976	4	1987	69	1998	6
1977	-13	1988	74	1999	-1
1978	-7	1989	12	2000	1
1979	96	1990	14	2001	3
1980	-3	1991	47	2002	14
1981	-4	1992	17	2003	1
1982	-7	1993	11	2004	4
1983	1	1994	36	2005	6
1984	-9	1995	23	2006	5
1985	27	1996	11	2007	12

Figure 13 provides some evidence for the presence of five distinct EITC expenditure punctuations. All punctuations reflect large increases that occur before FY1996, but are most prevalent from FY1985 through FY1995. The first punctuation (greater than 20% annual percentage change) was associated with the Revenue Act of 1978 making the EITC one of only three welfare related provisions passed that year (Ventry, 2001). President Carter's signing of the Revenue Act of 1978, and the related modifications to the EITC, resulted in an annual percentage increase for the EITC expenditures of 96%. For the next 6 years, Congress made only modest changes to the EITC.

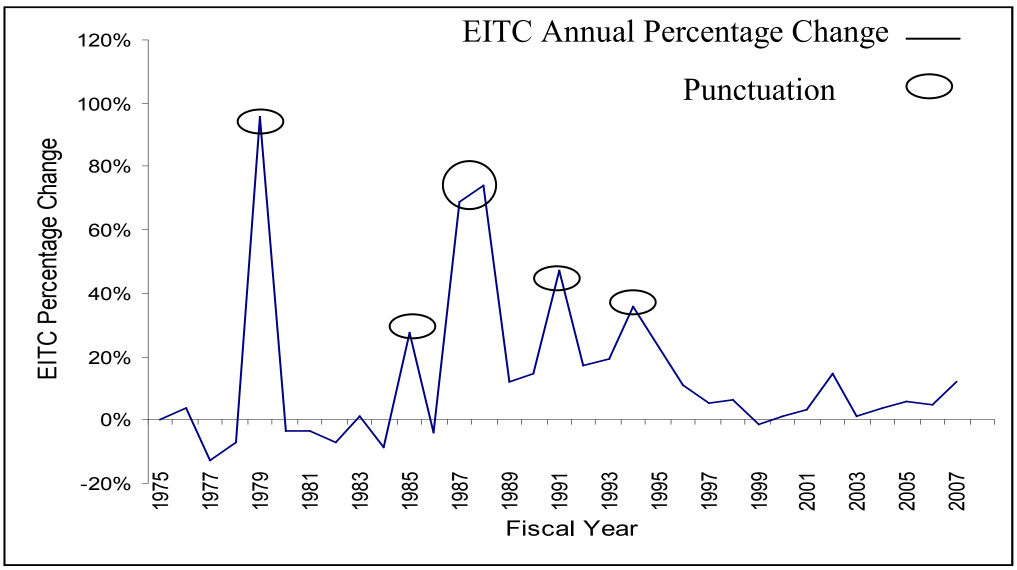

Figure 13. Annual percentage change in EITC expenditures. Years on the x-axis refer to the end year for the change: for example, 1990 = 1989 to 1990.

Between FY1975 and FY1984, the EITC's maximum credit to recipients had fallen by 35% in real terms. Reagan's Deficit Reduction Act of 1984 increased the EITC benefit offsetting this erosion resulting in an increase of EITC's annual percentage change from FY1984 to FY1985 of 27%. The Deficit Reduction Act of 1984 raised the EITC maximum benefit to slightly more than the FY1975 level (in constant dollars), increased the credit phase-out amount, and indexed the EITC for inflation.

Beginning with FY1987, the EITC escalated with President Reagan's signing of the Tax Reform Act of 1986 resulting in annual percentage changes of 69% in FY1987 and 74% in FY1988. In 1990, President Bush signed the Omnibus Budget Reconciliation Act of 1990 again expanding the EITC. Not only did benefits increase, but benefits were added for taxpayers with two children resulting in a 47% annual percentage change for FY1991.

The last significant punctuation occurred when President Clinton signed the Omnibus Reconciliation Act of 1993 resulting in annual percent increases of 36% in FY1994 and 23% in FY1995. The Omnibus Reconciliation Act of 1993 increase the maximum EITC benefit over $1,000 to a total $2,528. In FY1995 the maximum benefit increased to $3,110 and the EITC payment for a single person with no dependents was added.

Under the changes to the EITC by the 1990 and 1993 bills, the cost of the EITC almost tripled in size, rising suddenly from $7.5 billion in FY1990 to $21.1 billion in FY1994 (U.S. GPO, 2009a). In reviewing the percentage increase of the EITC annual expenditures over a longer period of time, the EITC expansion appears more dramatic. From FY1985 through FY1995, EITC expenditures grew by almost 1,200%.

Preliminary analysis appears to show the presence of five important punctuations defining distinct periods in EITC expenditure budgeting. Results are presented using descriptive statistics and tables to help answer whether EITC budget policymaking was affected by the state of the economy, political partisan divisions, and public policy opinion.

Research Question 3

The third research question asks: What qualitative relationship exists, if any, between changes in EITC annual expenditures and changes in the economy? This question was examined by testing the relationship between percentage changes in EITC annual expenditures and annual changes in the economy as evidenced by the U.S. GDP. Investigation focused on EITC annual expenditures from EITC's inception in FY1975 through FY2007 (the most recent available data).

Table 21

GDP Annual Percentage Change

Year	GDP % Change	Year	GDP % Change	Year	GDP % Change
1975	9.2	1987	6.2	1998	5.3
1976	11.4	1988	7.7	1999	6.0
1977	11.3	1989	7.5	2000	5.9
1978	13.0	1990	5.8	2001	3.2
1979	11.7	1991	3.3	2002	3.4
1980	8.8	1992	5.7	2003	4.7
1981	12.2	1993	5.0	2004	6.6
1982	4.0	1994	6.2	2005	6.3
1983	8.7	1995	4.6	2006	6.1
1984	11.2	1996	5.7	2007	4.8
1985	7.3	1997	6.2	2008	3.3
1986	5.7				

It is likely that the EITC expenditure punctuations may be the product of changes in the economy. If there was rapid economic growth in the mid 1970s, a high number of budget increases may be more prevalent than during the late 1980s and 1990s when the economy was growing slower (see Table 21). Despite the reasonableness of this hypothesis, it was not supported by this study's analysis of the annual percentage changes in EITC expenditures.

Overall, percentage changes in EITC spending had no significant cross-correlation (Pearson's correlation coefficient of -0.05) with percentage changes in GDP.

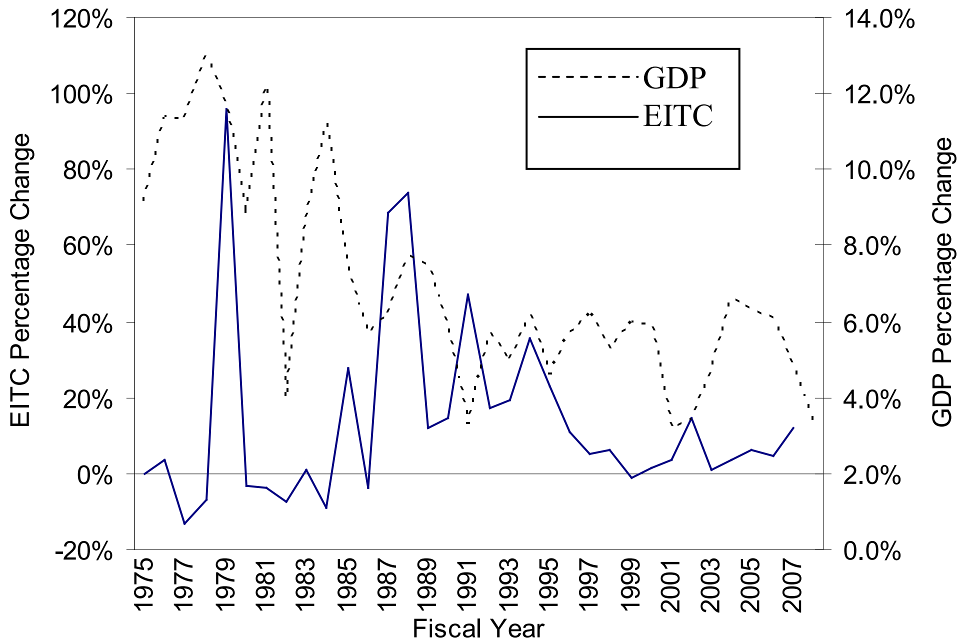

Figure 14. Effects of GDP on EITC annual expenditures.

In the 4 years prior to the largest annual EITC percentage change (96%) in 1979, GDP increased an average 11.25% per year. In the 4 years prior to the second largest annual EITC percentage change (1987 at 69% and 1988 at 74%), GDP increased an average of 3.8% with 2 of those years representing a contraction of the economy. These two periods of ETIC expenditure punctuation represent contradictory results. It should be noted that although the annual EITC percentage change in 1979 was dramatic it was the smallest change in actual dollars ($1,004 billion) of all incidences of EITC expenditure punctuations.

Research Question 4

The fourth research question asks: What qualitative relationship exists, if any, between changes in EITC annual expenditures and changes in partisan political control? This question was examined by testing the relationship between percentage changes in EITC annual expenditures and annual changes in political partisan control as evidenced by the NTU Scorecard scale (see Figure 15). The higher the aggregate percentage of the NTU Scorecard scale represents a more conservative voting pattern for both legislative branches and suggests that there should be less spending than if the NTU Scorecard showed a lower, equating to a more liberal voting pattern thus higher spending.

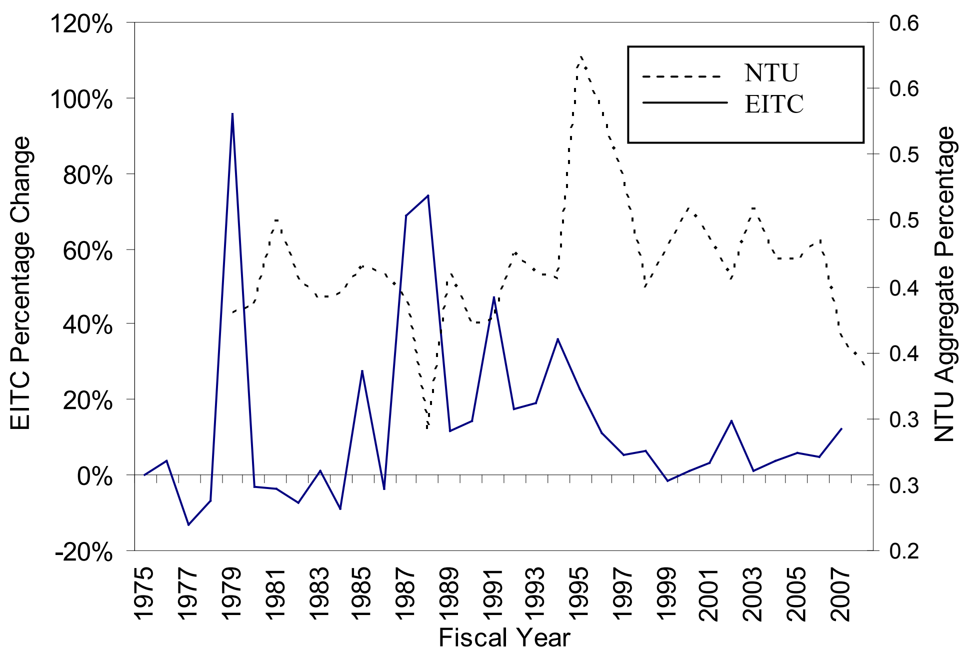

Figure 15. Partisan political control versus EITC expenditure change.

If the punctuation equilibrium theory holds true, then traditional political partisan control will not significantly affect EITC expenditures to increase or decrease during periods of punctuation. The political partisan control proposal predicts that Democratic presidents, with a Democratic controlled Congress will increase the size of government including EITC expenditures more than Republic presidents and Republican controlled Congress. The 34 year history of the EITC in this study indicates that this has not been the case. The only punctuation period that has a significant relationship is during the Carter's Democratic presidency with a moderate-strong NTU Scorecard rating (see Table 22). The punctuations that are not significantly related to political partisan control are during the Reagan Republican presidency with a moderate NTU Scorecard rating in 1985, 1987, and 1988; The Bush Republican presidency in 1991, again with a moderate NTU Scorecard rating; And Clinton's Democratic presidency in 1994-1995 with a strong NTU score.

Table 22

Annual NTU Scorecard for Years 1979 - 2008

Year	Aggregated House & Senate NTU Score %	Year	Aggregated House & Senate NTU Score %	Year	Aggregated House & Senate NTU Score %
1975	n.a.	1987	39	1998	40
1976	n.a.	1988	29	1999	43
1977	n.a.	1989	41	2000	46
1978	n.a.	1990	37	2001	44
1979	38	1991	38	2002	41
1980	39	1992	43	2003	46
1981	45	1993	41	2004	42
1982	41	1994	41	2005	42
1983	39	1995	58	2006	44
1984	40	1996	53	2007	36
1985	42	1997	48	2008	34
1986	41				

Table 22 presents the NTU Scorecard scores for years 1979 through 2008. A score of 50% is defined as more conservative than a score of 30%. The most liberal score received was 29% in 1988 and the most conservative score received was 58% in 1995 with an overall mean score of 40.3%. Overall, percentage changes in EITC spending had no significant cross-correlation (Pearson's correlation coefficient of -0.32) with political partisan control either during that year or checking against the results in the following year. In either the simple or the lagged case, the partisan political control supposition of significant increases under Democratic control is not supported.

Research Question 5

The fifth research question asks: What qualitative relationship exists, if any, between the EITC annual expenditures and public policy mood? This question was examined by testing the relationship between percentage changes in EITC annual expenditures and an annual public policy mood index as evidenced by the Stimson's Mood Index for years 1975 through 2008 (see Figure 16). Opposite the NTU Scorecard scale used in research question 4, the lower the Stimson's Mood Index represents a more conservative voting pattern for both legislative branches and implies that there should be less spending than if the Stimson's Mood Index showed a higher, more conservative voting pattern and higher spending.

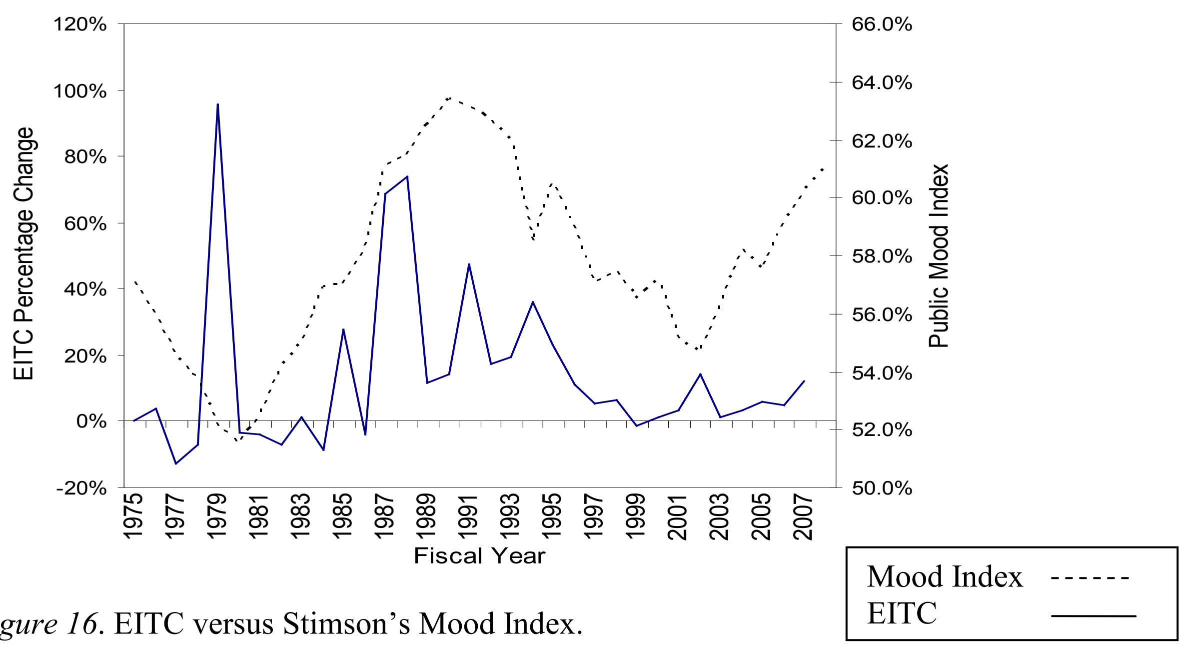

Figure 16. EITC versus Stimson's Mood Index.

It might be argued that broad "understandings about the proper role of government are just another form of public opinion" (Jones et al., 1999, p. 19). If public policy opinion within a democracy were an uncomplicated subject, it should be possible to encapsulate it through frequent large sample population surveys and tested for policy relationships (Page & Shapiro, 1992). Examining Stimson's Mood Index (see Table 23), it does indicate a clear increase in liberal penchants for a more active government in the Reagan presidency years 1987 and 1988 but not in year 1985. However, the mood measure shows a significant shift toward a more conservative, less-active government during the enactment and first EITC punctuation in 1979 continuing through to the second punctuation in 1985. On the contrary, the mood measure after the last EITC punctuation suggests a more active government but the EITC expenditure pattern shows more restraint.

Table 23

Stimson's Mood Index for Years 1975 - 2007

Year	Stimson Measure	Year	Stimson Measure	Year	Stimson Measure
1975	57.1	1987	61.1	1998	57.5
1976	56.0	1988	61.5	1999	56.5
1977	54.5	1989	62.5	2000	57.2
1978	53.7	1990	63.4	2001	55.1
1979	52.1	1991	63.2	2002	54.7
1980	51.5	1992	62.7	2003	56.3
1981	52.5	1993	62.0	2004	58.3
1982	54.2	1994	58.5	2005	57.5
1983	55.0	1995	60.6	2006	59.2
1984	57.0	1996	58.9	2007	60.2

(continued)

1985	57.0	1997	57.1	2008	61.1
1986	58.2				

It cannot be concluded that public mood does not influence public policy from these data, nor even that public policy opinion fails to influence EITC spending. The study cannot completely examine the complex relationship that exists linking EITC expenditure policies and mass public policy opinion. This study's analysis however, of the overall percentage changes in EITC spending had no significant cross-correlation (Pearson's correlation coefficient of 0.27) with the Stimson's Mood Index. Table 24 summarizes each of the three exogenous forces.

Table 24

EITC Versus Exogenous Forces Statistics

	GDP	NTU Scorecard	Stimson's Mood
Person's Correlation	-0.05556	-0.3187	0.270831
Mean	0.135529	0.164546	0.135529
Variance	0.060507	0.064751	0.060507
df	33	30	34
t Stat	1.565974	-5.24992	-10.3868
P(T<=t) one tail	0.063447	5.75E-06	2.19E-12
t Critical one tail	1.69236	1.697261	1.690924
P(T<=t) two tail	0.126895	1.15E-05	4.37E-12
T Critical two tail	2.034515	2.042272	2.032244

Chapter 5: Summary and Discussion

As an aid to the reader, this final chapter of the dissertation restates the research problem and reviews the methods used in the study. In addition, this chapter also discusses results, presents the conclusion, suggests further research, and states study limitations.

Statement of the Problem

The EITC is a tax policy that provides a work incentive for low-income workers. Policymakers view the EITC as an antipoverty tax policy with positive social policy effects on low-income families and the economy (Ventry, 2001). Research provides evidence that the EITC has significantly reduced the number of families living in poverty (Parrott & Sherman, 2006), increased the labor market supply (Neumark & Wascher, 2001), and provided families with economic and social mobility (Smeeding et al., 2000). According to AccountAbility Minnesota, a 37 year old community organization serving low and moderate income individuals, federal and state-level EITC refunds may increase a working family's income by 50%. The EITC has become the nation's largest antipoverty program with an annual budget exceeding $47.9 billion for FY2007 (CBO, 2009).

American political leadership through legislative action allocates significant budgetary funds towards economic mobility each year. In 2006 alone, approximately $746 billion was expended in economic mobility of which $205 billion, or 27%, was channeled through programs that favored low- income workers. Despite the magnitude of the economic mobility expenditure, few if any, budget assessments are made to determine how well federal programs, individually or taken together, actually promote economic mobility (Carasso et al., 2008).

The EITC, accounting for approximately 22% of federal economic mobility expenditures for low-income workers or 6% of the total economic mobility expenditure, plays a significant role in policy makers' economic mobility allocation targeted toward low-income workers. In 2007, approximately 23 million taxpayers benefited from the EITC (Strudler & Parisi, 2009). Approximately 80% of the claimants received EITC benefits via IRS tax refund checks in 2007, and the remainder directly reduced claimants' tax liability (Treasury, 2007). A problem addressed in this study is that inadequate information is known about the impact of the EITC on the individuals who receive it (Romich & Wiesner, 2000).

Review Methodology

This empirical research study indentified factors associated with economic mobility for EITC recipients and whether exogenous factors affect EITC policymaker's decisions. There were two separate and distinct datasets that makeup the composition of this study. The first dataset was used to identify factors associated with economic mobility for EITC recipients. The data analyzed, which included survey data from a sample of 2,252 EITC recipients mainly from the Orange and Los Angeles Counties of Southern California. A sample frame of the population came from EITC recipients who used the web based free tax and EITC preparation services made available by the LASOC during 2006.

The second dataset of this study tested Jones et al.'s (1999) hypothesis that budgetary punctuations occur throughout government and that the punctuations are not driven by the economy, political partisan division, or public policy opinion. The significance of this was to examine the effects of outside influences on policymakers' decision making process toward EITC economic mobility policy. This study tested EITC annual expenditures against the effects of the economy, political partisan division, and public policy opinion. The dataset was used to qualitatively analyze the three propositions (economy, political partisan division, and public policy opinion) and test EITC policymaking against the punctuated equilibrium theory.

Summary of the Results

The results revealed that 91.0% of the study respondents participated in some economic mobility activity and only 14.5% of the respondents participated in all economic mobility indicator activities. The results also revealed that 35.3% of respondents do not currently save and 28.2% do not have either a bank or credit union account. Descriptive statistics revealed that savings, education, race and being banked were factors associated with respondents practicing economic mobility. Also, descriptive statistics revealed that age was not a factor associated with practicing economic mobility. Results from testing the punctuated equilibrium theory indicated that at the .05 level there was not a significant association between exogenous forces from the economy, political partisan division, and public policy opinion on EITC policymaking decisions.

Discussion of the Results ─ Research Question 1

Descriptive statistical analysis help answer the question to what degree do EITC survey respondents report positive economic mobility uses for their EITC receipts? Are EITC refunds used to make new purchases, to pay bills, or are they mostly saved for later use and economic mobility? Does the EITC principally help finance current consumption, or does it affect investment and savings behaviors, assisting low-income individuals build assets and improve theirs and their families' economic mobility?

The results show a 91.0% participation rate in economic mobility by study respondents. These results may be misleading when analyzing the economic mobility indices individually as it is revealed that this study sample has a higher than the average rate (28.2%) of not having either a bank or credit union account and 35.3% of respondents do not currently save.

Approximately 10.0% of the participants in the study had used their past EITC refund for economic mobility use only. More than 53% of participants had used their past EITC refund for consumption use only. In this sample, 33.6% of participants reported using their past EITC refund for both economic mobility and consumption use. The highest overall economic mobility use for past EITC use was automotive expenses at 31.1% followed by education (14.3%) and medical expenses (11.5%). The highest overall consumption use was for personal use (34.7%), followed by rent (29.9%) and furniture (13.3%).

When asked what their first priority use for the current EITC was, 81.2% of respondents had at a minimum one priority use for the EITC refund. These responses indicated that debt repayment was the single most important use of the EITC for 39.2% of respondents, household expenses were the second most important use at 18.7%, and automotive expense was the third most important use at 9.0% of respondents reporting. Overall 60.2% of participants reported their first planned priority use of current EITC refunds for economic mobility uses and 39.8% reporting consumption uses as their first priority.

Historically, respondents reported that only 10% used their past EITC refunds for economic mobility use only and 50% used the refund for consumption only purposes, and 34% used the refund for both economic mobility and consumption use. This shows that planned uses for the EITC refund may differ considerably from EITC recipients' actual use of the refund. These results also shed light on the prospects that low-income workers have desires for improving their economic mobility but may not have the resources to do so.

Discussion of the Results ─ Research Question 2

Descriptive statistical analysis indicated that the act of saving was a factor affecting participants practice for economic mobility. Savers were almost three times more likely to practice three or more indicators of economic mobility, and almost two times more likely to practice two or more indicators of economic mobility than non-Savers. Sixteen percent of the respondents did not practice savings although 96.6% of all respondents expressed wanting to save.

Contrary to what was anticipated, there was not a significant association between economic mobility and age. Descriptive statistics revealed that 92.4% of participants in the 18-24 age group practiced economic mobility, 95.0% of respondents in the 25-45 age group practiced economic mobility, and 94.7% in the 46-65 age group practice economic mobility. In addition, 46.2% of respondents in the 18-24 age group, 48.4% of respondents in the 25-45 age group, and 48.1% of respondents in the 46-65 age group practice three or more economic mobility indicators.

The variance between any of the age groups practicing all indicators, or three or more indicators of economic mobility was marginal as the variance between all age categories for practicing economic mobility was 2.6%. This is contrary to economic theory as age was not a determinant for economic mobility in this study. Economic theory predicts that older adults are more likely to save (Modigliani & Brumberg, 1954) and prior studies of low-income families found that older adults were more likely to save (Carney & Gale, 2000; Hogarth, Lee, & Anguelov, 2003).

A possible explanation for the lower than expected level of practicing economic mobility in the over 46 age group is that this group may disproportionately represent chronically poor families who lack the means to practice economic mobility. Gabriel (2006) found that of EITC recipients in the Twin Cities of Minnesota, that among those with income below the poverty threshold, participants over 50 were the poorest of the poor with an average income that was nearly $1,000 less than others ($5,494 versus $6,462). A related explanation for the lack of saving among those over 50 is that they may disproportionately represent *long-term* EITC recipients who view EITC refunds (or other tax transfer payments) as permanent income (Dowd, 2005). Economic theory suggests that there is no incentive to save if recipients believe tax transfer payments will continue over their remaining life.

Level of education was another factor increasing the probability of practicing economic mobility. Descriptive statistics indicate that respondents with trade school, some college, or graduated college were more than two and a half times more likely to practice three or more economic mobility indicators than respondents with a 6-9 grade education, and one and a half times more likely to practice three or more economic mobility than respondents with a 10-12 grade education. Respondents with a 6-9 grade education were more than six times more likely to not practice economic mobility than respondents with some college, and more than three times more likely to not practice economic mobility than respondents who graduated college and almost twice as likely to not practice economic mobility as respondents who attended trade school. This result highlights the importance of education in the practice of improving one's economic mobility.

Race was another factor for practicing economic mobility. Respondents who indicated being Asian had the highest indication of practicing economic mobility at 90.5% in two or more indicators and 61.9% in three or more indicators. White respondents reported 84.0% participation in two or more indicators and 55.2% in three or more indicators of economic mobility. Black respondents reported 79.4% in two or more indicators and 54.4% in three or more indicators of economic mobility. Hispanic respondents reported practicing 75.1% in two or more indicators and 53.5% in three or more economic mobility indicators.

Being banked was the most influential factor affecting participant's practice of economic mobility. Banked participants were four and a half times more likely to participate in three or more economic mobility indicators, and two and a quarter times more likely to participate in two or more economic mobility indicators that unbanked participants. Not being banked participants were more than three and a quarter times more likely to have only one indicator of economic mobility than banked participants. These results underscore the critical role of financial institutions in facilitating economic mobility.

Approximately 25% of the participants in this study did not have a bank or credit union account, which exceeds the estimate of unbanked families in the nation. Beverly et al. (2004) estimated that 12% of families do not have a bank account and Carnery and Gale (2000) estimated that 20% do not have a bank account. Out of the total participants, 96.6% expressed interest in savings in a financial institution. Besides the immediate benefits of lower check cashing and bill paying fees, relationships with banks have long-term antipoverty effects by providing access to credit, facilitating home and automobile purchases, and offering other financial services for building assets and economic mobility (Bates & Dunham, 2003).

Discussion of the Results ─ Research Question 3, 4, and 5

Descriptive statistical analysis indicated that the punctuated equilibrium hypothesis that budgetary punctuations occur throughout government and that the punctuations are not driven by the economy, political partisan division, or public policy opinion held for the study of EITC expenditures. The intent of this study was to examine the effects of outside influences on policymakers' decision making process toward EITC economic mobility policy.

Using a new dataset on EITC expenditure authority, the study showed quantitatively that the 34-year history in this study of the EITC annual changes in expenditures is separated into five distinct periods of punctuation. After the enactment of the EITC in 1975 there was a decline in growth of the EITC program until 1979 when a 96% increase in annual EITC expenditures was approved under President Carter. In the four years preceding 1979 the economy was experiencing robust growth averaging 11.2% GDP growth and public policy mood was moderate. Under President Reagan the EITC had significant expansions in three separate years (1985, 1987, & 1988) with years 1987 and 1988 grouped as one singular punctuation. In the years leading up to these expansions, the economy, partisan political control, and public policy mood all are classified as moderate.

The third punctuation occurred under President Bush's administration in 1991 with a 47% percentage change in annual EITC expenditures. The state of the economy was moderate leading up to 1991 but was only at 3.3% growth for 1991 and both political partisan control and public policy mood was both liberal. The last punctuation occurred in 1994 and 1995 under President Clinton with 36% and 23% EITC annual percentage growth. The economy was moderate leading up to Clinton's EITC increase and the public policy mood was liberal but political policy control was strongly conservative. This study provides empirical evidence that punctuations occur in the EITC program. Results from testing the punctuated equilibrium theory indicated that there was not a significant association between outside influence from the economy, political partisan division, and public policy opinion on EITC policymaking decisions.

The implication is that policymakers are acting in the best interests of the populace. This study rejects the idea that there is a simple association of public mood with policy mood. A major inference seems to be that punctuations in the EITC expenditure patterns are a result of the widely shared beliefs about the proper role of government rather than from changes in national economy, changes in partisan political control of the government, or changes in public opinion.

In the third century B.C. Aristotle discovered that the most successful rulers in history exercised the trait of prudence. Prudence is a term he devised for a leader's ability to "calculate well for the attainment of a particular end of a fine sort" (Irwin, 1996, p. 58). Fishman (2001) further emphasized that Aristotle's paradigm of prudent political leadership is well suited to successful leaders of today: "they were able to create policies for the present that arise out of the context of the American past while preparing the United States for the future" (p. 108).

In support of this concept, in Morgenthau's (1974) book *Scientific Man versus Power Politics* in quoting Edmund Burke he maintained:

> A Statesman differs from a professor in a university; the latter has only the general view of society; the former, the statesman, has a number of circumstances to combine with those general ideas, and to take into his consideration. Circumstances are infinite, are infinitely combined; are variable and transient; he who does not take them into consideration is not erroneous, but stark mad . . . he is metaphysically mad. A Statesman, never losing sight of principles, is to be guided by circumstances; and, judging contrary to the exigencies of the moment, he may ruin his country forever. (p. 220)

Many public policies require our political leadership to have the insight and contemplation of prudent Statesmen. The United States EITC is a public social policy administered through tax policy that requires such consideration. Also inherent in this understanding is the American ideal that all citizens should possess social well-being and mobility.

Conclusion and Recommendations

This study contributes to EITC and economic mobility literature by identifying factors that influence economic mobility for EITC recipients in Orange and Los Angeles Counties in California. These factors: savings, education, race, and being banked are consistent with economic theory. These factors are also fairly consistent with prior studies of low to moderate income families (Carney & Gale, 2000; Hogarth, Lee, & Anguelov, 2003).

The punctuated equilibrium model emphasizes two related elements of the policy making process: defining an issue and setting an agenda. As Kingdon (1995) explained, issues are defined through indicators, focusing mechanisms, and feedback mechanisms creating an issue to become more prominent or fade away. Through many aspects of public discourse, policies can be either reinforced or questioned. When a policy is reinforced it can be expected that only modest change will occur. Questioning a policy's significance at the most basic level creates opportunities for dramatic reversals in policy outcomes. This study also contributes to literature by questioning and studying EITC program's policymaking.

President Obama issued a memorandum addressing transparency and openness in government. He stated that government should be transparent, participatory, and collaborative (Obama, 2009b). In the spirit of public engagement the following recommendations are made for consideration in future EITC policymaking:

- There is a disproportionate and growing income tax burden faced by single childless workers and couples without children. This is a growing segment of workers, particularly single men with low levels of education and training relegated to low wage jobs. There is a continued bias among policymakers toward rewarding workers with children while there are a growing number of children with non-custodial parents. Therefore, it is recommended to expand the EITC benefits for single and childless married couples with a range of policy modifications including:

    1. Increase the EITC from 8.0% to 15.3% of earnings up to $8,500 in order to directly offset payroll taxes and adjust the phase-in and phase-out ranges accordingly.

2. Lower the age requirement for single and childless workers to qualify for the EITC from 25 to 18 years of age. Fifty percent of this study's respondents in the 18 – 24 age group reported working more than two jobs and of those 41.5% had three or more jobs. In addition, 52.2% of the study's 18 – 24 age group had or were pursuing higher education with limited resources. EITC policy should promote positive economic mobility behavior particularly at significant developmental stages during an individual's life and for individuals exhibiting industrious behavior.
3. Increase the age restriction from 62 to 72 for all workers to qualify for the EITC as more seniors have to remain in the work-force due to economic hardship.

- The EITC was formed in response to the burgeoning welfare burden and to reduce families living in poverty and improve low-income workers economic mobility. The original intent of the EITC was based on providing a social safety net to low-income working families and providing a tool to improve one's economic mobility and move from poverty to self-sufficiency. The EITC was not enacted as a tool to redistribute wealth among income groups. In this spirit, a recommendation is to link EITC receipts that are in excess of recipients tax offset and which raises them above the poverty threshold to asset building options:

1. The first criterion is to provide a minimum EITC benefit so that low-income workers, who work full-time, but still earn below the poverty line, do not have an income tax burden. Currently, a portion of low-income workers without children still have a tax burden net of EITC benefits.
2. Require that the portion of EITC benefits that exceed recipients income tax burden and raises their income above the poverty threshold be linked to asset building options such as matched savings accounts for EITC recipients or their children's

education and training, home ownership, retirement, medical and health, and entrepreneurship.

Making ends meet is a time consuming and difficult task for low-income families (Edin, 1998; Romich & Weisner, 2000). Even though most EITC recipients sustain themselves principally through work, hardly any have predictable work lives or incomes while their bills remain constant with intermittent crisis. The intent of this recommendation is not to punish EITC recipients but to provide a balance between EITC recipients pressing consumption needs and those of the EITC programs goals and objectives of raising working families out of poverty and improving the economic mobility of low-income workers.

By eliminating regressive taxes on low-income workers and providing support to raise them above poverty addresses one of the EITC program objectives. By providing a credit that raises low-income workers above and beyond poverty without addressing improving economic mobility addresses short term needs but not long term outcomes and falls short of the EITC goals.

3. Remove or significantly increase asset limits for other public benefit programs. Social policy is contradictory and disingenuous by limiting assets low-income worker may acquire in order to receive much needed social benefits.
4. Remove the limitation that EITC recipient’s investment income must be $2,950 or less to receive the EITC. Investment income should not be included as part of recipients overall qualifying income. Higher income taxpayers have no limitation on their investment income so why punish and promote disincentives to low-income workers from the very economic mobility activities social policy purports to support.

- Beginning in 1979, EITC recipients could elect to receive their EITC in advance payments along with their pay. Less than one percent of those who received the EITC in any given year received the EITC in advance. Administratively, receiving the EITC in regular advance payments does not appear to impose a major burden on employers. Employers who reported some difficulty cited factors related to software limitations and computations for temporary and part-time workers (GAO, 1992). Providing the EITC advance payment option to employees is not required of employers. Conversely, the IRS has experienced problems related to EITC advance payment recipients who did not report EITC advance receipt on their tax return and then received the EITC again as a lump sum payment. Also, those who receive the advance payment may never file a tax return.

Practical evidence and research points to the popularity of a large EITC refund among recipients. But a transfer payment system that causes low-income workers to wait until the next fiscal year for basic assistance they have earned is questionable social policy. Helping low-income households with everyday needs while reinforcing the earned income quality of the EITC would lead to the preference of advance payment options. However, while addressing current recipients' consumption needs and the demonstrated program policy and recipients' desire for some degree of savings would be ignored.

President Obama's FY 2010 federal budget has proposed to eliminate the advance EITC payment option. From the perspective of society and EITC recipients, there are merits to having a workable periodic advance payment alternative. Because insignificant numbers of EITC recipients utilize this payment option does not equate to insignificant policy value. A recommendation is to modify the current policy to effectuate significant benefits to those whom the policy was created. Specific policy recommendations are:

1. Establish an opt-in requirement for advance EITC benefits. EITC recipients would be required to opt-in to the advance EITC program but would be able to withdraw after the first year of participation. The expectation would be that automatic enrollment would increase participation. This recommendation would only add value if other EITC policy modifications were incorporated.
2. Eliminate the requirement that EITC recipient must have at least one qualifying child for the current year to receive the advance payment.
3. Employers may not be willing to offer the EITC advance payment option to their employees and employees may not be interested in interacting with their employer regarding this matter. The IRS could assume advance EITC administration and make periodic payments to EITC advance payment accounts.
4. Incorporate a safe harbor provision so that if a EITC recipient receives more payments than they are ultimately eligible for because of unanticipated negative occurrences (losing a job due to downsizing) they would be protected against incurring a repayment liability. Current EITC limits for advance payments are $1,750 limiting government and taxpayers' exposure. If however, the recipient improves their job position and pay rate thereby making them ineligible for EITC benefits, having to repay the overpayment might be a consideration.
5. To make advance EITC application more functional, add a declaration feature to the current advance EITC form W-5 for current EITC claimants to notify the IRS that they expect to be eligible for the EITC in the coming year. This notification would

notify the IRS that they would like to receive the advance EITC in subsequent years. Also, for new EITC claimants they could submit a similar form declaring their expected eligibility and receive benefits in the current year instead of the year after initial EITC benefits are received.

6. In the future it may make sense to increase the proportion of the advance EITC to provide families with benefits as quickly as possible. Until further evidence and experience is gained limiting the advance EITC is a prudent course of action.
7. Current advance EITC payments are made on a regular paycheck basis administered by employers. If the IRS were to assume the advance EITC administration, quarterly periodic payments would be recommended. Quarterly payments would limit IRS administrative costs while providing recipients a regular source of additional income and provide for either forced or voluntary savings.

- Having financial institution relationships are advantageous to improving economic mobility, and the significant lack of such relationships within low-income groups, mandating the use of direct deposit accounts is recommended. Direct deposit for both advance EITC payments and EITC lump-sum payments offers a number of advantages including safety, convenience, and lower fees.

There are increased administrative costs for financial institutions that may hinder their participation offering services to low capital, low volume accounts. The federal government could offer credits to banks for providing these services to low-income households towards their requirements under the Community Reinvestment Act. There has also been empirical evidence that providing financial services to low-income communities is profitable.

Financial institutions may not be accommodating or even present in many low-income communities making mandatory direct deposit ineffective. An alternative might be to provide direct deposit through a prepaid debit card. GoDiect.com is a national campaign, sponsored by the U.S. Department of Treasury and Federal Reserve Banks, whose purpose is to educate and enroll individuals to sign up for direct deposit benefits of federal payments. Through GoDirect.com individuals may enroll with the Direct Express® Debit MasterCard®. This card is a prepaid debit card that allows recipients to receive their federal benefits and make purchases electronically. Currently, the Direct Express card may be used to receive Social Security, SSI payments, VA compensation, and pension payments. In addition, there are no sign up fees, no monthly or annual fees (Federal Reserve System, 2011).

- Illegalize Refund Anticipation Loans (RAL) for EITC refunds. Commercial tax preparation firms provide tax and EITC return services to low-income taxpayers typically for a small fee. Some firms offer RALs against EITC receipts to EITC cash strapped recipients for fees and loan interests rates that have reached 700% of the amount of the loan. An estimated five million tax filers received RAL loans in 2010 (Carrns, 2012). EITC recipients who have received RALs state the expediency of receiving money to pay bills as the main reason they take out the RAL. In reality the credit would be received on average 12 days of filing their EITC credit. This is predatory lending at its worst and should be stopped. Also, increasing the advance EITC payments would reduce the opportunity for RAL predatory lending.

Further Research

The results of this study suggest that the EITC does more than provide a work incentive for low-income individuals. It also provides EITC recipients the possibility to make modifications in economic behavior. Not including the EITC, approximately 80% of this study's respondents would not have been able to have met their first priority use for the credit, while the remaining 20% could have met their first priority to a lesser degree or with a time delay. EITC recipients are clearly aware of the program, and the vast majority who expect a refund articulated numerous specific uses for their refund, including investing in future economic mobility by such means as education, transportation, and savings.

The federal government has taken the path of least resistance by allocating significant resources to assess whether or not EITC applicants are in compliance. The more important issue is whether the EITC is positively affecting the economic mobility of low-income workers. As the federal government allocates approximately $160 million per year on EITC non-compliance it is not unreasonable to expect the same resources be allocated to determine if the EITC is achieving its stated goal of improving the economic mobility of low-income workers. Further research should also be funded by state and federal agencies to study what combinations of government services and support have the greatest affect on improving the economic well-being and economic mobility of all citizens.

Further research by the academic community in the area of EITC policy and low-income workers improved economic mobility is suggested. Many EITC families who received the EITC in prior years expect to receive it in the next year. In fact, approximately 50% of this study's sample signified that they had obtained the EITC in the prior year. This study's findings, and that of others (Smeeding et al., 2000), imply that the EITC may possibly play a significant role in supplementing families who are transitioning from welfare to work and moving above working poor status. Many other factors affect individuals' participation in improving their economic mobility including changes in family living arrangements, marriage, and cohabitation, separation or divorce, employment and many other factors. Hotz and Scholz (2001) suggest additional research in a dynamic context is very much needed to understand factors affecting economic mobility among the poor.

Studying a sample of recipients over a long time period would assist in identifying the pathways and determinants to improving their economic mobility and well-being and the function of the EITC in these transitions. Understanding EITC dynamics and how it may influence families move to economic independence might help identify the pathways from dependency on means-tested transfers to economic independence. In addition, understanding these dynamics might help make use of the potential for the EITC and savings as a basis for asset-building policy.

The significance of the EITC for advancing savings-based policy cannot be dismissed. Absent the EITC, nearly half of the credits recipients would not have been able to address their first stated priority use. A significant portion of those who could address their first stated priority use would do so to a lesser extent or experience some time delay. For this reason, the EITC supplies a significant foundation of support for working poor families. As such, there is evidence that the EITC may be our most valuable federal program for guiding low-income families toward the path of true economic independence. Therefore, the question to investigate further is how the EITC interacts with other recent legislative events, new and existing programs, and plans to encourage asset accumulation among low-income populations.

Before we as a society urge the poor to save, discouraging asset accumulation in means-tested programs that discourage savings should be stopped (Gruber & Yelowitz, 1997). There are few lower-income families with savings or checking accounts which could be attributed to the asset tests associated with welfare and Medicaid receipts. These asset tests discourage opening bank accounts and savings. The beauty of the EITC is that in most states, the credit is not counted toward TANF for benefit determination; although it is included toward asset limits after two months for both Medicaid and Supplemental Security Income (SSI). Many states continue to penalize TANF and food stamp clients with liquid asset test limits. Thereby savers are penalized and fear the possibility of having to reapply for aid or losing their jobs.

Clients that have automobiles with a book value of less than $4,650 should be re-evaluated in states that are negating their food stamp eligibility, while SSI, Medicaid, and TANF might copy the food stamp program of exempting EITC savings for 12 months from asset tests instead of two. In turn, food stamp liquid asset limits of $2,000 could be increased to allow for some asset accumulation among otherwise eligible households. Raising limits on automobile values to qualify for food stamps should be considered particularly when research indicates that automobile ownership is a key determinant of earnings levels economic mobility and earning levels. Participation in means-tested programs and its negative effects on equity building and savings deserves further study.

While many Universal Savings or Individual Development (USA/IDA) type savings accounts are plainly omitted from consideration by asset-test programs, it is sensible to modify the program rules themselves if low-income wage earners have the opportunity to build assets by and large and to endorse long-term economic independence. Asset transfers ought to be viewed as a means to transform societies, not as a method to meet emergency requirements. Increasing asset limits in means-tested programs would permit households the chance to build unsubsidized, flexible, preventive savings balances, which could be the first step toward participation in longer term USA/IDA like savings programs.

Plainly, the EITC has the potential and capability to be connected to asset building policy (Beverly & Daily, 2003; Seidman, 2001). Before his final term in office, President Clinton planned legislation to increase the federal EITC further with increased benefits for families with three or more children. The list is growing of states offering at least some added EITC benefit. Research undertaken by Cherry and Sawicky (2000) proposes joining the EITC with refundable child tax credits, thereby increasing the configuration of tax credits and discarding several labor supply disincentives in the present program. Hence, further research linking the EITC to savings-based policy should become increasingly persuasive.

Special subsidized savings account legislation has recently emerged for such purposes as home ownership, postsecondary tuition, and retirement (Boshara, 2005). As USAs and IDAs are currently in the experimental stage, and an important part of upward economic mobility is asset accumulation, these efforts will be limited to those with formal relationship with financial institutions. It may be useful to study if subsidies to EITC recipients would provide ample incentives for the purpose of opening specific purpose savings accounts and to save for specific goals (Seidman, 2001).

If EITC savings policies are directed at lower-income families through the EITC structure, it should be asked what motivates their savings objectives. Further research is recommended to investigate the savings intentions of low-income households. While there are limited studies on these intentions, there remain various supports of EITC recipient's desires for different types of savings (Beverly & Sherranden, 1999; Beverly et al., 2008). It is clear that low-income families have a need for precautionary savings. Short-term assets are imperative for unexpected and expected upcoming bills, in particular for those just departed from welfare. In addition, low-income families save for specific objectives: to buy their first or safer and more reliable car, to purchase a starter home, and to invest in a new business (Davis & Lemieux, 2000). Many also put aside to finance education for themselves or their children. Lastly, once these priorities are realized, low-income families may choose and be able to save for retirement.

Few EITC beneficiaries are able to put aside for their retirement. As EITC savings inducements may be practical for IDA type savings plans, they are unlikely to be useful for additional retirement vehicles, such as USDs. Saving needs differ between those with and without children, and as children reach the age of 18 retirement savings becomes a priority. When savings becomes the priority the maximum value of the EITC falls suddenly.

Proposals for retirement savings plans, like USA program, seem to recognize this dilemma by allowing withdrawals for a first home, college tuition, catastrophic medical bills, plus for retirement. This does not mean that matched pension accounts are not a viable idea (Orszag & Greenstein, 2005), but that the current retirement savings accounts alternatives do not go well with the savings requirements of younger EITC recipients with young children and receive large, lump-sum amounts.

Further research into the effects of linking EITC refunds with savings incentive programs, such as an IDA, purchasing a home, education, etc. is warranted. The IRS allows direct deposit of tax refunds into bank accounts, which could be an IDA or other savings device. Since IDAs provide a real economic incentive and direct deposit facilitates saving, behavioral theory suggests economic mobility will increase. H&R Block conducted exploratory research in this area by linking tax refunds with individual retirement accounts (IRAs). As an incentive, H&R Block provided matching IRA contributions for low and middle-income families. Consistent with behavioral theory, H&R Block facilitated the opening of IRAs for participants.

Results of this exploratory research indicated that the incentive generated new savings (Duflo, et al., 2005).

Ninety-three percent of survey respondents from this study reported that they would save or save more if they could save in a matching account. Study participants reported strong interest in IDA programs for specific saving purposes. Buying a home was the largest group at 64.6% followed by: retirement (32.6%), education (32.2%), automotive (28.6%), move to better neighborhood (18.0%), purchase a computer (13.8%), and lastly, medical expenses (12.0%).

The latest proposals for asset based programs and other subsidized savings accounts obviously aim to build assets among the poor. Because the tax code is a major source of subsidize asset accumulation and savings for high-income households, it would only be fair to use it for low-income families as well? We cannot be certain of the accomplishments of such policies as there has been no past attempt to initiate such an asset-building policy on a grand scale. And while this study, as well as the Chicago, and the Beverly and Daily (2003) study suggest the desire of low income families to save, further research into how successful the EITC and targeted savings linkages might be very useful.

The widespread use by low-income families of costly check-cashing stores; the wide spread use of tax refund loans at rates representing up to 200% interest advocates for the need for financial literacy among EITC recipients in particular, and low-income families in general. Low-income consumers are prone to higher interest rate charges and down payment requirements making purchases more expensive. While there have been a number of pilot programs to educate the welfare to work community on financial literacy a more general and longer term financial education policy is desired. Financial literacy is a worthwhile investment for a society that is forward thinking and would implement tax-based savings inducements in a consequential way.

Access to financial and credit markets differ noticeably throughout this study's EITC recipients' sample. Of those in this study, 28.2% do not have a commercial bank or credit union account. Of those who do have a commercial bank or credit union account only 15.3% had more than one account. Of the respondents 66.9% cash their paychecks at a commercial bank or credit union. Almost 10% utilize check cashing or a money store to cash their paychecks and 11.8% use the services at a local grocery store. Direct deposit services are used by 24.5% of the survey respondents. Of those respondents who used alternative financial services 345 used a check cashing service in the previous month, 305 respondents used a money order in the previous month, 62 respondents used a payday loan in the previous six months, and 75 respondents used a pawn shop in the previous six months.

In actual fact, financial and credit markets access varies widely throughout the income ranges of recipients in the Smeeding et al. (2000) study. Just 40% of individuals in the phase-in range indicated one or more financial affiliations. Just 24% owned a checking account and roughly 73% of individuals in the phase-out range had some financial affiliation. In comparison, across the income ranges there was a steady decline in check-cashing services with 58% of those in the phase-in range and 44% of the plateau group utilizing these services. Many of our study participants indicated that they desired opening a savings or checking account using their EITC receipts.

In the current and future years policy makers must encourage and support low income families to develop formal relations with banks and insist on financial literacy (Stegman, 1999). Setting up a checking account provides a secure means of saving the EITC receipt until individuals can sort out priority uses. In turn, savings and checking accounts provide opportunities for longer term asset building and precautionary savings. Further research is suggested regarding public policies that encourage and allow asset accumulation for low-income families which are vital and could further fortify EITC recipient's relationships with official financial institutions.

The Beverly and Daily (2003) study found that only 20% of the beneficiaries of the EITC took advantage of the opportunity to open a bank account under the ShoreBank *Extra Credit Savings Program* (ESCP). Moreover, 61% of these were unbanked, meaning that the ESCP was their only banking account. Most recipients decided to open accounts because banking costs were low and because they offered a safe harbor for their EITC checks. However, by the end of the year, most recipients had severely depleted their accounts for bills and other needs, so that all median closing balance was only $13.00. Hence, the needs of EITC recipients were greater than their abilities to save for long-term goals. Additional studies like this one, drawn from larger samples in multiple areas, can assist in the understanding whether EITC recipients are able to maintain IDA style accounts all the way through a current year.

The question, are financial institutions willing to carry the cost burden to monitoring and maintain IDA/USA accounts established from EITC programs. From a cost viewpoint, these types of accounts are likely to be low revenue and high cost, especially if banks are mandated to implement withdrawal policies for policy pre-approved purposes. While banks may achieve small benefits related to the net interest income they would receive tied to savings plans like USAs and IDAs, the corresponding administrative costs associated with these accounts is high due to their relatively small size and of the possibility of early withdrawal. Davis and Lemieux's (2000) research states that savings per participant during the American Dream (IDA) Demonstration Project averaged $286. The study also stated that the total account balance including subsidies averaged $845. Numerous participants also made in-person monthly withdrawals and deposits which coincided with the results with the Beverly et al. (2004) study. Therefore, these accounts represent fairly high maintenance requirements and further study of how financial institutions could reduce their associated costs or earn government community credits to make these accounts attractive is warranted.

Limitations

There are several limitations of this study worth noting. First, although the descriptive results identified factors that contributed to improving economic mobility, this study does not establish a causal relationship between economic mobility and these factors. That is, having a bank account or having a certain level of education does not cause one to practice economic mobility. Causality requires testing whether changes in one variable can be viewed as a cause of changes in another variable (Pindyck & Rubinfeld, 1998), which is beyond the scope of this study. The significant association between economic mobility and independent variables: saving, age, education, race, and being banked indicate a relationship but do not indicate a causal relationship.

Second, using survey data limits this study. Survey data does not capture all factors that contribute to economic mobility. Marital status, income, home ownership, health insurance, pension coverage and credit history are other factors known to affect saving decisions. Also, survey respondents were asked for their actual and planned use of EITC refunds. There was no method used to determine if in fact the participants actually used the EITC funds in the manner they reported. Selection bias may also limit the generalizing ability of the results. I-CAN! clients were invited to participate in research by completing a questionnaire and they were informed that completing the questionnaire was not a condition for having their tax return prepared or their EITC application submitted. However, long-term clients and clients who anticipated significant tax refunds may have felt more of an obligation to complete the questionnaire than others. Also, clients who found the questionnaire threatening may have chosen not to complete the questionnaire as evidenced by 30% not responding to questions related to race.

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APPENDIX A

I-CAN! EITC Survey

Item #	Question	Excel Row
1	Language (English or Spanish)	C
2	Location including Zip Code a) City b) State c) Zip Code	D-F D E F
3	Was I-CAN! Easy to use? a) Very easy to use b) Easy to use c) Hard to use d) Very Hard to Use	G
4	Was I-CAN! Helpful? a) Very Helpful b) Somewhat helpful c) Not Helpful d) Not helpful at all	H
5	Where did you use I-CAN!? a) At work b) At home c) In a Library d) In the court house e) Other	I
6	Was this location convenient for you? a) Very convenient b) Somewhat convenient c) Not very convenient d) Very inconvenient	J
7	Did you receive the EITC last year? a) Yes b) No c) Don't know or don't remember	K
8	If you answered no on question 5 then why not? a) Applied but did not qualify for it b) Did not know about it c) Too much paperwork d) Couldn't afford to have someone do my taxes e) Don't know or don't remember	(L)
9	How did you complete your tax return last year? a) Filled out the tax forms myself and mailed b) Had help from a friend c) Tax preparation service d) Used this program e) Other	(M)
10	How did using I-CAN! Compare to the way you did your tax return last year?	(N)

(continued)

	a) Much easier b) Somewhat easier c) About the same d) Somewhat harder e) Much harder f) Did not file a tax return last year g) Don't know or don't remember	
11	Did you receive an instant refund type of loan where the loan is repaid out of the tax refund? a) Yes b) No c) Don't know or don't remember	(O)
12	Would you use I-CAN! again? If no, check that apply. a) To hard to use b) Too far from home or too inconvenient c) Takes too long d) Not enough help available e) Want someone to help me in person f) Don't like or feel comfortable using a computer g) Other	(P-V) P Q R S T U V
13	Would you use I-CAN! again? If yes, check that apply. a) Makes the application process easier b) Saves money c) Saves time d) Convenient locations e) Ability to file by computer versus mail f) Other	(W-AB) W X Y Z AA AB
14	How did you hear about I-CAN! a) Radio b) TV c) Newspaper d) Legal Aid office suggested I try it e) Library staff suggested I try it f) Other	(AC-AH) AC AD AE AF AG AH
15	Comments regarding I-CAN! use	(AI)
16	I cash my paycheck at: Please mark all that apply a) Commercial Bank b) Credit Union c) Check Cashing or Money Store d) Family or Friends e) Grocery Store f) Direct Deposit g) Other	(AJ-AP) AJ AK AL AM AN AO AP
17	I have a Bank or Credit Union Account: a) No b) I have 1 (one) Account c) I have more than 1 (one) account	(AQ)
18	I plan to save a portion of my refund: a) Yes b) No	(AR)

(continued)

19	Separate from a tax refund, I currently save: a) On a regular basis b) When I have extra money c) I don't save	(AS)
20	I want to save: Please mark one of the following: a) Strongly agree b) Agree c) Disagree d) Strongly disagree	(AT)
21	I feel that I cannot save enough to make a difference: Please mark one of the following a) Strongly agree b) Agree c) Disagree d) Strongly disagree	(AU)
22	If I save, I would save to: Please mark all that apply a) Purchase a home b) Education c) Emergency needs d) Retirement e) Start a business f) Daily needs g) Other	(AV-BB) AV AW AX AY AZ BA BB
23	In the past I have used the EITC for the following: please mark all that apply a) Appliance-(Refrigerator, stove, etc) b) Car-(Purchase, repair, insurance, gas, etc) c) Computer d) Purchase home e) Property tax f) Rent g) Furniture h) Medical i) School/Education j) Business k) Personal l) Does not apply	(BC-BN) BC BD BE BF BG BH BI BJ BK BL BM BN
24	My most important EITC use is: Please mark one a) Pay debt b) Household expenses c) Medical expenses d) Educational Expenses e) Auto & Transportation expenses f) Saving g) Send to family h) Fun, splurge i) Other	(BO)
25	I have used the following services: Please mark all apply a) Check cashing in the previous month	(BP-BS) BP

(continued)

	b) Money order in the previous month	BQ
	c) Payday loan in the previous SIX months	BR
	d) Pawn shop in the previous SIX months	BS
26	I would like to learn more about the following financial services and products:	(BT-CA)
	a) Savings account where my savings are matched by someone else	BT
	b) Small business	
	c) Budgeting	BU
	d) Bank or Credit Union Account	BV
	e) Children's savings account	BW
	f) Property taxes	BX
	g) Buying a car	BY
	h) Buying a home	BZ
		CA
27	My age is: a) 18-24 b) 25-44 c) 45-64 d) 65 or older	(CB)
28	I have this amount of education a) 6 to 9th grade b) 10 to 12th grade c) Trade School d) Some College e) College Graduate f) Other	(CC)
29	What is your Race? a) White b) Asian c) Black d) Hispanic e) Other	(CD)
30	How many jobs did you have during the last tax year? a) 1 job b) 2 jobs c) 3 jobs d) 4 or more jobs	(CE)
31	I would save or save more if I could save in a matching account: A matching account is a savings account where what you save would be matched by both parties and public sectors. The total account would be yours. a) Strongly Agree b) Disagree c) Strongly Disagree	(CF)
32	If the savings in a matching account could only be used for a specific purpose I would be willing to:	(CG-CM) CG CH
	a) Buy a home	CI
	b) Buy a computer	CJ
	c) Move to a better neighborhood	CK

(continued)

d)	Education	CL
e)	Automobile	CM
f)	Medical Expenses	CN
g)	Retirement	

APPENDIX B

Institutional Review Board Approval Letter

PEPPERDINE UNIVERSITY

Graduate & Professional Schools Institutional Review Board

June 26, 2009

Eugene Anton
312 Clarendon Lane
Saint Charles, MO 63301

Protocol #: E0609D04
Project Title: ***An Investigation of The Relationship Between Earned Income Tax Credit Policy and***
Social Mobility

Dear Mr. Anton:

Thank you for submitting your application, *An Investigation of The Relationship Between Earned Income Tax Credit Policy and Social Mobility,* for exempt review to Pepperdine University's Graduate and Professional Schools Institutional Review Board (GPS IRB). The IRB appreciates the work you and your faculty advisor, Dr. Kent Rhodes, have done on the proposal. The IRB has reviewed your submitted IRB application and all ancillary materials. Upon review, the IRB has determined that the above entitled project meets the requirements for exemption under the federal regulations (45 CFR 46 - http://www.nihtraining.com/ohsrsite/guidelines/45cfr46.html) that govern the protections of human subjects. Specifically, section 45 CFR 46.101(b)(4) states:

(b) Unless otherwise required by Department or Agency heads, research activities in which the only involvement of human subjects will be in one or more of the following categories are exempt from this policy:

Category (4) of 45 CFR 46.101, research involving the use of educational tests (cognitive, diagnostic, aptitude, achievement), survey procedures, interview procedures, or observation of public behavior that is not exempt under paragraph (b)(2) of this section, if: (a) The human subjects are elected or appointed public officials or candidates for public office; or (b) Federal statute(s) require(s) without exception that the confidentiality of the personally identifiable information will be maintained throughout the research and thereafter.

Your research must be conducted according to the proposal that was submitted to the IRB. If changes to the approved protocol occur, a revised protocol must be reviewed and approved by the IRB before implementation. For any proposed changes in your research protocol, please submit a **Request for Modification Form** to the GPS IRB. Because your study falls under exemption, there is no requirement for continuing IRB review of your project. Please be aware that changes to your protocol may prevent the research from qualifying for exemption from 45 CFR 46.101 and require submission of a new IRB application or other materials to the GPS IRB.

A goal of the IRB is to prevent negative occurrences during any research study. However, despite our best intent, unforeseen circumstances or events may arise during the research. If an unexpected situation or adverse event happens during your investigation, please notify the GPS IRB as soon as possible. We will ask for a complete explanation of the event and your response. Other actions also may be required depending on the nature of the event. Details regarding the timeframe in which adverse events must be reported to the GPS IRB and the appropriate form to be used to report this information can be found in the *Pepperdine University Protection of Human Participants in Research: Policies and Procedures Manual* (see link to "policy material" at http://www.pepperdine.edu/irb/graduate/).

Please refer to the protocol number denoted above in all further communication or correspondence related to this approval. Should you have additional questions, please contact me. On behalf of the GPS IRB, I wish you success in this scholarly pursuit.

Sincerely,

Doug Leigh, Ph.D.
Associate Professor of Education
Pepperdine University
Graduate School of Education and Psychology
6100 Center Dr. 5th Floor Los Angeles, CA 90045 dleigh@pepperdine.edu (310) 568-2389

cc: Dr. Lee Kats, Associate Provost for Research & Assistant Dean of Research, Seaver College
Ms. Ann Kratz, Human Protections Administrator
Dr. Doug Leigh, Chair, Graduate and Professional Schools IRB
Ms. Jean Kang, Manager, Graduate and Professional Schools IRB
Dr. Kent Rhodes
Ms. Christie Dailo