

Boost Income Growth

Lane Kenworthy

April 10, 2014

What do I think is the most important single step progressives and Democrats can take to regain support among white working class Americans? My interest is mainly in policy (rather than framing, organizing, or campaigning), so I'll focus on that sphere. The ideal policy choice would be one that both improves working-class whites' well-being and encourages them to identify with and vote Democratic.

A good example is Bill Clinton's early-1990s proposal to hire 100,000 more police. At that time crime was at or near the top of popular concerns, and Republicans more or less owned the issue. Adding more police was likely to be of genuine help in reducing crime and to reduce Republicans' advantage on the issue among working-class whites.

Today there are plenty of good candidates, including early education, school choice, a beefed-up child tax credit, expansion of affordable housing in cities, enhancing college affordability, and higher taxes on the rich, among others. Let me suggest one that isn't currently part of the debate: a restructuring and expansion of the Earned Income Tax Credit (EITC).

Since the late 1970s, incomes for Americans on the bottom half of the ladder, including many working-class whites, have increased very slowly despite reasonably strong economic growth (prior to 2008). The main reason is that wages for this segment of the population have been essentially stagnant. Unfortunately, wage stagnation is likely to continue. It owes to a host of developments — technological advance, globalization, fierce product market competition, shareholder short-termism, union decline, and more — that are unlikely to reverse.

In the 1980s and 1990s household incomes rose despite wage stagnation because many added a second earner. But the rise in employment stopped in the 2000s, even before the Great Recession. We don't know exactly why, but it doesn't bode well for the future. Many households compensated by taking on additional debt, facilitated by rising home values, the advent of home equity loans, and expanded access to credit cards. But that came

crashing to a halt in 2008, and it was never a viable long-term solution in any case.

Public insurance is an effective tool for mitigating economic and social risks such as bad health, sickness, unemployment, and old age. We contribute collectively via tax payments, and those who experience the risk event or condition receive transfers or services. Wage stagnation is a new social risk. The EITC is a public insurance tool that helps to compensate for low wage levels. It could be restructured to also help address the problem of wage *stagnation* by rising over time in sync with economic growth. A simple way to achieve this would be to index it to real GDP per capita.

In addition, the EITC's scope should be expanded. Currently it goes to about 20% of households. In order to help more than just low earners, it should be extended well into the middle class. Ideally, in order to ensure its political durability, we could make it a universal benefit — give it to everyone with some earnings and then, to keep it affordable, tax back part or all of it for those with higher incomes.

This would be only a partial remedy: if the EITC amounts to one third or so of a household's earnings and the EITC rises in line with the economy but earnings don't, then the household's income (earnings plus EITC) growth will lag behind growth of the economy. Yet it would be a big help, and it might be quite popular among white working-class Americans who find themselves, and feel themselves, falling farther and farther behind where they should be in one of history's richest nations.

Lane Kenworthy is professor of sociology and political science at the University of Arizona. His most recent book is Social Democratic America.