

The EITC and Liberal Activism

Section 5

Throughout the 2008 campaign, Barack Obama vowed to “change” the way Washington works. Front and center: he would declaw the lobbyists, influence peddlers, and other inside-the-beltway types, who wield inordinate power to influence federal legislation on behalf of the “special interests.”

Obama’s populism is understandable. Lobbyists have a bad rap. Politicians of both parties routinely vilify them—blaming their own legislative failures on a conspiracy of sleazy insiders. Periodic scandals confirm the stereotypes, e.g., the Jack Abramoffs who wine and dine key congressmen while pulling down millions from casinos, large corporations, and wealthy families.

But Obama’s crusade is based on two myths.

Myth #1: Lobbying is anti-democratic because it frustrates “the will of the people.” Just the opposite is true: lobbying is democracy in action. Americans are a collection of special interests—and one person’s special interest is another person’s moral imperative. If people cannot organize to influence government, then democracy is dead.

Myth #2: Lobbying favors the wealthy because only they can afford to organize and pay for access to high-profile politicians. Taxes cuts tilted toward the rich? Anti-poverty programs cut back? Affordable health care beyond the reach of the middle class? Public education starved for funds?

You can blame the rich and powerful.

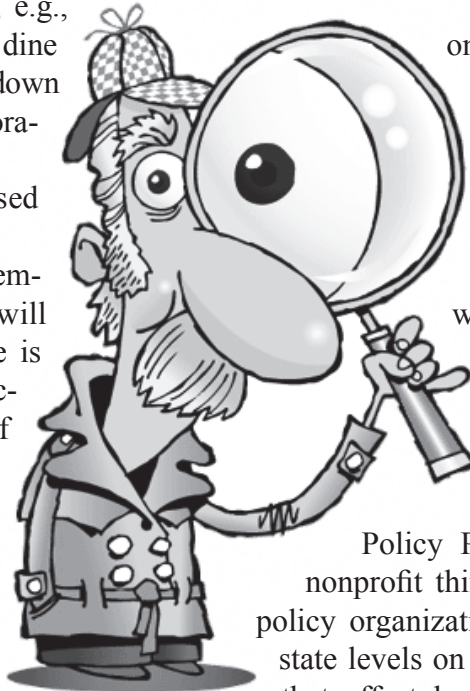
Reality check: If anything, the rich are the servants of government, not its masters. Exhibit #1: The richest 10 percent of taxpayers pay about 55 percent of federal taxes—and within that, the richest 1 percent pay 28 percent, according to the Congressional Budget Office. Meanwhile, about 60 percent of the federal budget goes to payments to individuals—mostly the poor and middle-class.¹

The EITC did not become the most expensive federal anti-poverty program without powerful lobbyists.

Many nonprofits promote the EITC on behalf of working poor people. Some even assist taxpayers in filing the tax forms required to receive the credit. But only one is powerful enough to actually shape legislation in Congress. Only one has a seat at the table when the House Ways and Means Committee hammers out income thresholds, eligibility requirements, and fraud controls for the EITC.

The Center on Budget and Policy Priorities (CBPP) is ostensibly a nonprofit think tank. It describes itself as a “policy organization... working at the federal and state levels on fiscal policy and public programs that affect low- and moderate-income families and individuals.”²

In fact, the CBPP is a lobbying juggernaut—one of the most powerful liberal organizations in Washington. Editorials on the EITC and other budget issues do not show up in the *New York Times* or the *Washington Post* without first being run past



the Center. Its head has been described as “one of the top five liberals in America.” Stephen Moore of the *Wall Street Journal*’s editorial board recalls being at meetings with Democratic congressmen where they said “What would Greenstein say?” about some proposal.



Robert Greenstein, founder and executive director of the Center on Budget and Policy Priorities.

Robert Greenstein founded the CBPP in 1981. A former high school history teacher, Greenstein came to Washington in the 1970s to work on food stamps and other low-income issues at the Community Nutrition Institute. He was hired by the U.S. Department of Agriculture during the Carter administration, and he ultimately headed up the Food and Nutrition Service.

Initially, the CBPP had a staff of six and a budget of \$50,000. Today, CBPP has a staff of more than 100 and a budget of \$18.3 million. More than 80 percent of its revenues are grants from such sources as the Ford Foundation, the Annie E. Casey Foundation, the Rockefeller Foundations, and the Charles Stuart Mott Foundation.³

In the strictest legal terms, the CBPP is not a lobbying organization. Its nonprofit status allows

it to spend only a small percentage of its time “lobbying.” Just two center employees are officially dubbed lobbyists, according to a somewhat dated *National Journal* profile.⁴

Yet the Center is hardly reticent about its lobbying prowess:

In 2007, the Center helped to design and promote major improvements in the EITC and the CTC [Child Tax Credit]. One such improvement would greatly expand the EITC for low income workers who are not raising children....

Another proposal the Center has promoted would reduce the earnings threshold (now about \$12,000) for the refundable CTC, which disqualifies more than 6 million children in low-income working families that earn less than \$12,000 a year from receiving the credit....

A major tax reform bill that Charles Rangel (D-NY), chairman of the House Ways and Means Committee, introduced in the fall of 2007 included significant, Center-designed expansions in the CTC and EITC. While Congress did not consider the bill in 2007, prospects for such expansions are improving.”⁵

Question: How does Greenstein’s group maintain such clout?

Answer: By promoting itself as a dispassionate, numbers-oriented research organization free of ideological bias.

Robert Greenstein has been described as a genius—and not simply because he received a McArthur Foundation grant for \$306,000 in 1996. His genius is in marketing his left-wing Center as a “just the facts” think-tank.

Of course, he has had a little help from his liberal friends. During the Bush II years, the *Washington Post* began referring to the CBPP as “a fiscally conservative group that advocates for programs that benefit low-income workers....” That accolade raised eyebrows on both sides of the aisle.

But even GOP stalwarts acknowledge the Cen-

ter's uniqueness. Ron Haskins, a former GOP staff member of the House Ways and Means Committee, says the Center projects credibility like no other liberal think-tank. In a *National Journal* interview, he recalled an instance where the Center was planning to release a report critical of the Republican Congress' work in fighting poverty. Greenstein asked Haskins to look over the report. He agreed and was surprised to find that the report came down hard on the GOP's efforts. "I said to Bob, 'We've had the best success fighting poverty since the 1960s and you're pooh-poohing it.'" Greenstein agreed not to release the report.⁶



Robert Greenstein (left), founder of the Center on Budget and Policy Priorities, attended a "fiscal responsibility" summit at the White House, February 23, 2009.

"In our view, the issue is not to score political points, it's to do the best possible analysis," Greenstein explained. "We'll pass a paper around before we release it, and often someone will comment that if you want to be as rigorous as possible about it, you'd change this, though it would then lose a lot of its political power. We will invariably modify the paper and have it lose a lot of its power."

Heritage Foundation welfare expert Robert Rector, who has sparred with him over the years, points out that Greenstein's forte is to win some obscure policy change that, while others nod, raises welfare benefits and gets more people on the rolls. P. J. O'Rourke calls it the "tyranny of boredom": The last one left awake gets to spend all the money.⁸

The trouble is that policy minutiae and boring analysis do not necessarily lead to wisdom. Indeed, they often help hide the forest fire through the trees.

The Center's analysis of the Bush tax cuts is a prime example.

Greenstein claimed the 2001 plan would "cost" the Treasury \$2.5 billion over the 10-year period 2001 through 2011. That sum was \$1.2 trillion more than the estimate of Congress's Joint Committee on

Taxation, and \$900 million more than the tax loss estimated by the White House.⁹

No, the Center did not fudge the figures to inflate the loss. It merely ignored the effect tax cuts have on behavior. Tax cuts do not just put money into people's pockets; they change incentives. The statistics that groups like the

Center brandish do not take into account how people respond to incentives or how those responses affect outcomes. Thus, a tax cut that stimulates investment and economic activity will often increase the tax base enough to offset much of the reduction in tax rate. That benefit would never make into a Center chart.

To complain, as conservatives often do, that the "static models" of liberals ignore the "dynamic effects" of tax cuts or other policy changes is to understate the philosophical issue. A methodology that ignores the potential for change as incentives change assumes that people are passive and inert. This can lead to exactly the wrong policy prescription.

Case in point: Robert Greenstein's 2005 analysis of the EITC.¹⁰ Here we excerpt several of the static, albeit formally correct, statements about the EITC contained in Greenstein's report. We dub them "Center truths" and juxtapose them with our own dynamic, more realistic, "Higher truths:"

Center truth: "Recent research also documents another powerful effect of the EITC: reducing pov-

erty. Census data show that in 2003, the EITC lifted 4.4 million people out of poverty, including 2.4 million children.”

Higher truth: He is right: Poverty is reduced by the EITC. That is the good news. The bad news is that the EITC increases the likelihood that low-income workers will always need federal support to escape poverty. This insidious result occurs because the EITC induces employers to cut wages and workers to work fewer hours.

Center truth: “Without the EITC, the poverty rate among children would have been nearly one-fourth higher.... Census data show that the EITC lifts more children out of poverty than any other single program or category of programs.”

Higher truth: Once again, the statement is formally true: the EITC does lift children out of poverty. At the same time, the credit’s generous parent-hood subsidy, combined with its marriage penalty, increases incentives for single parents to have children. Taking this dynamic into account, the number of poor households is probably larger *with* the EITC than it would be without it. As with tax cuts, the Center’s static model misses the point.

Center truth: “.... Only people who work are eligible for the EITC, and for workers with very low earnings such as those who work less than full time, the size of the credit increases with each additional dollar of earnings, providing an incentive for more work.”¹¹

Higher truth: This assertion studiously ignores evidence that businesses pay their employees less because of the credit, and that many EITC recipients work fewer hours when they reach the phase-out” range of income, thereby negating the credit’s (alleged) positive work incentives.

Center truth: “.... the EITC remains much too complex for low-income working families. Due in significant part to its complexity, the EITC can lead to tax-filing errors, and about 70 percent of filers claiming the EITC resort to paying commercial tax preparers to file their return, a larger percentage than for tax filers generally.... Simplification of the EITC would be highly desirable.”¹²

Higher truth: Most of the errors made on EITC tax returns involve understating income or

overstating the number of dependent children in the household, according to the IRS. This is not the result of “complexity”; it is outright fraud. How can complexity be a problem when, thanks to Center’s outreach efforts, free tax preparation service is available to EITC filers.

Center truth: “The EITC strongly complements the minimum wage. For several years after the EITC expansions of 1990 and 1993, the combination of the EITC, the minimum wage, and food stamps met the goal of ensuring that a family of four with a full-time minimum-wage worker would not have



to raise its children in poverty. This goal cannot be met by the minimum wage alone; the minimum wage would have to be set at more than twice its current level to achieve the goal by itself....”

Higher truth: In recent decades, the real (inflation-adjusted) minimum wage has declined while the EITC has expanded. Had the Center devoted even a fraction of its lobbying efforts to the minimum wage, this could have been avoided. By promoting the EITC, the Center has aligned itself with Wal-Mart, McDonalds, and other low-wage, low-benefit corporations.

Our take: The EITC’s perverse incentives increase the likelihood that low-income households will remain dependent on federal largesse. While

this may be bad for poor people, it represents “job security” for the CBPP and its network of liberal activists.

At the end of the day, the CBPP is its own special interest group.

The EITC Network

All politics is local, even politics relating to the federal EITC. The CBPP has harnessed a large network of community organizations, schools, state and local governments, labor unions, and advocacy groups to its EITC outreach campaign. Members receive a “Tax Credit Outreach Campaign Kit”¹³—updated annually—outlining the CBPP’s strategy for promoting the credit and linking eligible workers to free tax filing assistance. Flyers in Hmong, Tagalog, and eighteen other languages—designed to hook immigrants into the EITC culture—are prominent features.¹⁴

January 30, 2009, was the third annual National EITC Awareness Day. Here is a sampling of the activities that the CBPP suggested its affiliated organizations do on that day:

- Issue news releases to highlight the EITC.
- Check the deadlines for shopper’s guides and other free papers to print an advertisement about the EITC and free tax filing assistance sites. Include a checklist of documents that tax filers should bring to the site.
- Provide flyers to schools, libraries, Head Start programs, and after-school programs to distribute to children to take home to their parents.
- Arrange a meeting with the newspaper’s editorial board to try to get an editorial printed on January 30 that underscores the importance of the EITC and the availability of free tax help. If the campaign has already been launched locally, provide some information on how many people have already been served and how much in refunds claimed.
- Schedule a radio or TV interview to discuss the importance of the EITC to individuals and to communities. Arrange for a local political leader, business owner, and/or EITC recipient to participate in these interviews. Locally-focused community media, including ethnic radio and TV stations, may

be particularly interested.

- Encourage your mayor or other well-known city official to issue a statement or proclamation in support of the EITC and local tax credit outreach efforts.

The public relations blitz extends beyond the federal EITC. Each year, the CBPP issues a report with state-by-state information on the income level at which families begin to owe state income tax. These reports receive widespread media coverage and generate irate editorials—all designed to shame state legislators into easing tax burdens on low-income workers.

To maximize the report’s impact, we work with a number of partner organizations in individual states to issue materials on the findings regarding their state and to hold conference calls for journalists to highlight that state’s particular problems.¹⁵

Success, in the Alice in Wonderland world of the EITC zealot, is measured by the number of state EITCs created or expanded:

In 2007, our collaborations scored exciting victories in this area. Louisiana and North Carolina became the first states in the South to adopt state EITCs that are “refundable,” meaning that families with incomes too low to owe income tax can receive the credit in the form of a refund check to supplement their income. New Mexico also adopted a state EITC, and six other states—Illinois, Iowa, Kansas, Maryland, Nebraska, and New Jersey—expanded their state EITCs.¹⁶

This outreach is driven by one key assumption: the EITC is underutilized, a relatively unknown benefit that good liberals should be anxious to publicize. This is simply not the case. As shown in this report, EITC reciprocity rates are higher than those of Food Stamps, Medicaid, and Supplemental Security Income (SSI).

Why do liberal activists tout the EITC and ignore other, relatively less-used, poverty programs?

Why do they downplay the minimum wage? Are they in league with the Walmarts and McDonalds of the world? The tax preparation services?

The question deserves an answer. ■

ENDNOTES

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