
APPENDIX E: ECONOMIC DEVELOPMENT IMPACTS OF EITC PROMOTION¹¹

Public utilities place significant effort today into "economic development" activities. In pursuit of this goal, these companies should place greater emphasis on the promotion of the Earned Income Tax Credit (EITC) for low-income households. The EITC is not only one of the most promising means of generating economic activity, and jobs, within a state, it is a means of generating economic activity and jobs that will likely stay in, and redound to the benefit of, distressed communities and the low-income households living in those communities.

As such, promotion of the EITC stands in sharp contrast to existing utility economic development efforts. The efforts of utilities today are generally directed toward providing rate breaks to large industrial consumers who threaten either to relocate existing facilities, or to locate new or expanded facilities, to a geographic area outside the utility service territory. While the efforts to purchase the siting

¹¹ This discussion first appeared as R.Colton (1995). *Beyond Social Welfare: Promoting the Earned Income Tax Credit (EITC) as an Economic Development Strategy by Public Utilities*, Fisher, Sheehan & Colton, Public Finance and General Economics, Belmont, MA.

decisions of industry have been questioned as unwise,¹²⁾ they have been pursued nonetheless. Some analysts question whether industries actually deliver on the promises they make in consideration for the rate breaks that are provided.¹³⁾ Other analysts question whether the "economic development" generated by utility efforts brings employment that is at all related to the needs of local distressed communities.¹⁴⁾

Unfortunately, in their quest to deliver economic development through industrial siting decisions, utilities have missed one of the most promising economic development tools available for distressed communities which they serve: promotion of the Earned Income Tax Credit. As Alex Wilson, external programs staffperson for the Edison Electric Institute (EEI), has appropriately noted, "perhaps most importantly, [utility promotion of the EITC] contributes to the service territory's economic development."¹⁵⁾

The purpose of this paper is to help quantify Wilson's general policy conclusion. More specifically, the analysis below will develop a state-by-state quantification of both the economic activity generated and the new employment created in a state by promotion of

¹²⁾ See e.g., Greg LeRoy (1994). *No More Candy Store*, Federation for Industrial Retention and Renewal: Chicago, IL.

¹³⁾ See generally, Roger Colton and Mike Sheehan (1994). *Economic Development Rates: Designing, Justifying and Enforcing*, Fisher, Sheehan & Colton, Public Finance and General Economics: Belmont, MA.

¹⁴⁾ If, in other words, an industry which sites a facility in a local community is such that it must import 90 percent of its workforce, the siting of the facility has done little to address the distressed nature of the local community. For example, the federal Environmental Impact Statement for the Claiborne Enrichment Center, a nuclear reprocessing facility in Louisiana, concluded that the facility "will bring substantial employment and economic benefits which will benefit the entire population." *Final Environmental Impact Statement for the Claiborne Enrichment Center*, at § 4.2.1.7.4 (August 1994). Further inquiry found, however, even the EIC reported that most of the high-paying jobs will go to "migrants" from outside the local community. The EIS reported: "Of the adult (age 16 and over) population in the narrowly defined seven-county. . .employment region, more than 30 percent are not high school graduates. In Claiborne Parish, non-high school graduates represent almost 47 percent of the population ages 16 and older. In both cases, the rates are disproportionately higher for blacks than whites. Most of the employed individuals of both races work in lower skill, lower wage jobs. The likelihood of job training and operations employment will be concentrated among a group of currently more qualified and more educated individuals. These individuals are statistically more likely to be white than black. Lesser qualified individuals in the area will obtain jobs in the cafeteria, administration, general plant maintenance, and support services area."

¹⁵⁾ Alex Wilson, "Another Perspective," *Electric Perspectives*, at 8 (Nov.-Dec. 1994).

additional low-income participation in the EITC program. The evaluation will then present the data which supports the conclusion that the added economic activity, as well as the employment, will tend to stay in the local distressed communities and benefit the existing residents of those communities.

THE EARNED INCOME TAX CREDIT

The Earned Income Tax Credit is a refundable federal tax credit for low-income people who work. For tax year 1994, working families with one child that had income less than \$23,755 could be eligible for a credit of up to \$2,038. Families with more than one child that had income less than \$25,296 could be eligible for a credit of up to \$2,528. Until now, only families with children could receive the earned income tax credit, but this year, for the first time, low-income workers *without* children can be eligible, too, if they have income less than \$9,000. The maximum these workers can receive is \$306.

Low-income households do not have to owe taxes in order to receive the credit. Even workers who earn too little to owe federal income tax, in other words, can be eligible for the EITC. However, they *must* file a federal tax return.

ASSESSING ECONOMIC AND EMPLOYMENT IMPACTS: THE METHODOLOGY

For purposes of assessing the economic impacts arising from a promotion of the EITC by public utilities, we assume a five percent increase in the participation rate. This assumption is empirically-based. In New Jersey, where Public Service Electric and Gas (PSE&G) has aggressively promoted the EITC, there has been a 4.9 percent increase in program participation levels. The five percent increase is thus a demonstrably reachable figure.

Given this increase in participation rates, the analysis below further assumes an average benefit of \$1,000 per household. This assumption, too, has an empirical basis. According to the IRS, in tax year 1993 (tax returns filed in 1994), the most recent year for which data is available, the average benefit was \$1,000.

Given these two inputs, the amount of additional dollars flowing into low-income communities can be calculated on a state-by-state basis. The state-specific participation rate for tax year 1992 is increased by five percent. The number of households represented by that incremental increase is then multiplied by \$1,000 to obtain the additional revenue attributable to the EITC.

Finally, the economic activity and jobs impact are calculated using state-specific data from the *Regional Multipliers: A User Handbook for the Regional Input-Output Modelling System (RIMS II)*.¹⁶¹ The additional EITC benefits which flow into a state are assumed to be spent in the retail sales sector of the economy. As discussed below, this assumption is consistent with previous research on the uses to which EITC benefits have been put.

ECONOMIC AND JOBS IMPACTS: THE OVERALL RESULTS

The state-by-state impacts of an additional EITC participation of five percent are set forth in Table E-4 below. Nationwide, an increase of five percent in the EITC participation rate over 1992 levels would generate an additional \$1.6 *billion* in economic activity in low-income communities and create an additional 36,000 jobs. In addition to these aggregate numbers, however, is the fact that, as discussed in detail below, this economic activity, and these jobs, will tend to *stay* in the low-income community.

Not surprisingly, the greatest impacts regarding additional economic activity would go to the biggest states. These states have, for the most part, both the highest level of multiplier for each dollar of EITC benefit brought into the state and the highest level of total additional activity generated. The states with the highest economic multipliers, for example, were in descending order: Texas (2.4522), Illinois (2.4184), California (2.3373), Pennsylvania (2.2847), and New Jersey (2.2955). The top ten, however, were not strictly "big states." Utah (#10 at 2.1618), Kansas (#9 at 2.1863) and Colorado (#6 at 2.2447) all made the top ten as well. The ten states with the greatest multiplier as to economic activity are summarized below.

¹⁶¹ The Second Edition (May 1992) is available from the Bureau of Economic Analysis, Washington D.C. or from the National Technical Information Service of the U.S. Department of Commerce.

Table E-1 Additional Economic Activity from 5% Increase in EITC Participation: Top Ten States		
States	Economic Activity Multiplier	Additional Economic Activity from EITC
Texas	2.4522	\$173,572,000
Illinois	2.4184	\$69,571,000
California	2.3373	\$247,580,000
Pennsylvania	2.2847	\$53,121,000
New Jersey	2.2455	\$37,970,000
Colorado	2.2447	\$18,424,000
Georgia	2.2284	\$57,106,000
Ohio	2.2279	\$52,678,000
Kansas	2.1863	\$12,075,000
Utah	2.1618	\$8,549,000

In contrast, the states with the highest creation of *jobs* per dollar of additional EITC benefit brought into the state did *not* involve the largest states. Instead, in terms of jobs created per additional million dollars of economic activity, the top five states were, in order from top to bottom: South Dakota, Utah, North Dakota, Iowa and Kentucky. The top ten states in job creation potential per million dollars of additional EITC benefits, along with the total jobs created in each state, are set forth below:

Table E-2 Top Ten States in Job Creation Potential		
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Per Million Dollars of Additional EITC Benefits		
State	Jobs Created/Million Dollars of Additional EITC Benefits	Total Jobs Created with 5% Increase in EITC Participation
South Dakota	59.0	110
Utah	58.7	232
North Dakota	58.3	78
Iowa	58.2	324
Kentucky	56.7	622
Mississippi	56.6	843
Wisconsin	55.8	508
Nebraska	55.7	206
Indiana	55.5	749
South Carolina	55.2	814

As can be seen, therefore, the potential for increased EITC participation to generate substantial benefits for low-income communities, and thus for the utilities serving those low-income communities, is substantial whether in a large state or small. While large states generate impacts of considerable magnitude simply because of the sheer size of their low-income population, the generation of benefits is *not* simply with the domain of large states.

RETENTION OF JOBS AND ECONOMIC ACTIVITY WITHIN LOW-INCOME COMMUNITIES.

The final step in evaluating the extent to which promotion of the Earned Income Tax Credit will benefit low-income communities is to consider the extent to which, if at all, the additional economic activity generated by the additional EITC benefits will stay within the low-income community. If these dollars *do* stay in the low-income community, and create additional employment within those communities, utilities will enjoy even greater benefits by helping to stabilize the distressed communities which they serve, thus preserving customers (and revenue streams) and addressing collection problems.

Looking at the distribution of the additional EITC benefits requires a two-step process. First, it is necessary to obtain some idea of what goods and services the additional benefits are used to purchase. Second, it is necessary to obtain some idea of where low-income households tend to purchase those goods and services.

The best information on the uses to which EITC benefits are put comes from a study commissioned by PSE&G. According to that New Jersey utility, more than 90 percent of the low-income population receiving the Earned Income Tax Credit uses the additional funds to pay for household goods and services. The money is not used for vacations, or to purchase new cars and appliances, and the like. It is instead used for basic living expenses.

This use of EITC benefits is important because existing research indicates that low-income households tend to shop at local retail establishments. For food in particular, low-income households tend to shop at small, local food stores.¹⁷¹ This tendency to shop at local food stores is not necessarily "voluntary." Due to AFDC limitations on the equity which a family may retain in an automobile,¹⁸¹ many low-income households do not have access to low-cost convenient transportation to supermarkets that are not within easy walking distance. In addition, the small local stores serving poor people have been found to be more likely to give credit to their customers, a particular help to low-income families who may run out of money for food at the end of the month.

¹⁷¹ See generally, Morris, *Public Voice for Food and Health Policy, Higher Prices, Fewer Choices: Shopping for Food in Rural America* (1990); see also, Staff of the House Committee on Agriculture, 99th Congress, 1st Session, *A Review of the Thrifty Food Plan and its Use in the Food Stamp Program*, at 22 (Comm. Print 1985).

¹⁸¹ See generally, M.Sheehan and R.Colton (1994). *An Economic Analysis of the HHS Rule Eliminating AFDC Benefits to Families with Motor Vehicle Assets Over \$1,500*, Fisher, Sheehan & Colton, Public Finance and General Economics: Belmont, MA.

Finally, research in Oakland, California recently found that businesses serving low-income communities "strengthen other locally based business--even more than stores in middle-income neighborhoods."^{9\} According to this research:

Oakland's low-income area businesses have a distribution network (in-coming goods) that is 54 percent Oakland-based. Nineteen percent say their main suppliers are half inside the city and half outside, and 27 percent have suppliers outside the city borders. In stark contrast, only 19 percent of [more middle income neighborhood] stores have main suppliers in Oakland. Twenty-five percent report that half their suppliers are Oakland-based and half are not. Yet 56 percent have main suppliers from outside the city.

The research concluded that "low-income area businesses of whatever kind purchase the bulk of their goods from Oakland-based suppliers. These suppliers are themselves sources of local employment* * *."^{10\}

^{9\} David Dante Troutt (1993). *The Thin Red Line: How the Poor Still Pay More*, at 35, Consumers Union: San Francisco.

^{10\} *Id.*, at 36.

**Table E-3:
Supplier Location: Businesses Serving Low-Income and Middle-Income Neighborhoods**

SUPPLIER LOCATION FOR SELECT LOW-INCOME AREA BUSINESSES					
Type of Store	Food Stores	Eating Places	Liquor Stores	Personal Services	TOTAL
Inside Oakland	45%	64%	47%	59%	54%
Half Inside, Half Outside	22%	9%	40%	6%	19%
Outside Oakland	33%	27%	13%	35%	27%
SUPPLIER LOCATION FOR SELECT MIDDLE-INCOME AREA BUSINESSES					
Type of Store	Food Store	Eating Places	Liquor Stores	Personal Services	TOTAL
Inside Oakland	12.5%	25%	0%	29%	19%
Half Inside, Half Outside	12.5%	25%	100%	42%	25%
Outside Oakland	75%	50%	0%	29%	56%

In sum, not only will promotion of the Earned Income Tax Credit provide income and employment to low-income households, but the funds that are delivered to such households will likely be spent, retained and recirculated within the low-income community.

SUMMARY AND CONCLUSIONS

Several major conclusions can be drawn from the discussions above.

- o First, nationwide, promotion of the EITC is not simply a social welfare program, but is a significant economic development program as well. Increasing low-income participation in the EITC by five percent would generate \$1.6 *billion* in economic

activity and 36,000 jobs.

- o Second, while the greatest absolute dollar amounts of economic activity will go to the big states, due to the sheer size of their low-income populations, the highest *job* creation potential lies in the smaller states. States such as Iowa, North Dakota, South Dakota, Utah, Nebraska, Utah, South Carolina and Indiana are all represented in the ten states with the largest number of jobs created per additional million dollars of EITC benefits.
- o Third, recipients of EITC benefits tend to devote the EITC to basic household living expenses. Low-income households tend to shop for goods and services within their local community. Moreover, previous research has found that the local businesses in low-income neighborhoods tend to use local suppliers far more than other businesses. Accordingly, both the economic activity and the job creation will likely *stay* in (and thus benefit) the low-income communities served by the EITC.

In sum, utility promotion of the EITC will not only generate substantial economic development activity, but it will tend to target that economic activity (and the jobs associated with that activity) to the distressed communities where it is needed most.

Table E-4
STATE-BY-STATE ECONOMIC ACTIVITY AND JOBS IMPACTS OF
INCREASING EITC PARTICIPATION BY FIVE PERCENT

State	Calculation of Increased Benefits Given 5% Increased Participation				Multiplier per Million \$\$\$ of Increased Benefits		State-Specific Aggregate Impacts Given 5% Participation Increase	
	1992 EITC Participation Rate (HHs)	Additional HHs Given 5% Participation Increase	Average EITC Benefit	Aggregate Increased EITC Benefits	Retail Multiplier	Retail Jobs	Increased Economic Activity	Increased Jobs
Alabama	362,084	18,104	\$1,000	\$18,104,200	2.0236	53.8	\$36,635,659	974
Alaska	18,101	905	\$1,000	\$905,050	1.7495	31.4	\$1,583,385	28
Arizona	249,461	12,473	\$1,000	\$12,473,050	2.0280	48.5	\$25,295,345	605
Arkansas	194,502	9,725	\$1,000	\$9,725,100	2.0395	54.6	\$19,834,341	531
California	2,118,514	105,926	\$1,000	\$105,925,700	2.3373	42.9	\$247,580,139	4,544
Colorado	164,193	8,210	\$1,000	\$8,209,650	2.2447	52.2	\$18,428,201	429
Connecticut	77,634	3,882	\$1,000	\$3,881,700	2.0621	40.0	\$8,004,454	155
Delaware	34,538	1,727	\$1,000	\$1,726,900	1.8907	45.5	\$3,265,050	79
D.C.	48,840	2,442	\$1,000	\$2,442,000	1.3667	11.2	\$3,337,481	27
Florida	847,682	42,384	\$1,000	\$42,384,100	2.0508	49.7	\$86,921,312	2,106
Georgia	512,534	25,627	\$1,000	\$25,626,700	2.2284	51.2	\$57,106,538	1,312
Hawaii	37,486	1,874	\$1,000	\$1,874,300	1.9913	42.9	\$3,732,294	80
Idaho	60,976	3,049	\$1,000	\$3,048,800	1.8561	51.7	\$5,658,878	158
Illinois	575,354	28,768	\$1,000	\$28,767,700	2.4184	49.0	\$69,571,806	1,410
Indiana	270,062	13,503	\$1,000	\$13,503,100	2.1474	55.5	\$28,996,557	749
Iowa	111,443	5,572	\$1,000	\$5,572,150	1.9896	58.2	\$11,086,350	324
Kansas	110,464	5,523	\$1,000	\$5,523,200	2.1863	54.8	\$12,075,372	303
Kentucky	219,252	10,963	\$1,000	\$10,962,600	2.1610	56.7	\$23,690,179	622

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	1992 EITC Participation Rate (HHs)	Additional HHs Given 5% Participation Increase	Average EITC Benefit	Aggregate Increased EITC Benefits	Retail Multiplier	Retail Jobs	Increased Economic Activity	Increased Jobs
Louisiana	376,267	18,813	\$1,000	\$18,813,350	2.1218	53.7	\$39,918,166	1,010
Maine	55,605	2,780	\$1,000	\$2,780,250	1.9023	50.8	\$5,288,870	141
Maryland	233,430	11,672	\$1,000	\$11,671,500	2.0702	44.8	\$24,162,339	523
Massachusetts	167,745	8,387	\$1,000	\$8,387,250	2.0619	42.9	\$17,293,671	360
Michigan	368,166	18,408	\$1,000	\$18,408,300	1.9514	48.7	\$35,921,957	896
Minnesota	149,133	7,457	\$1,000	\$7,456,650	2.1514	52.2	\$16,042,237	389
Mississippi	297,985	14,899	\$1,000	\$14,899,250	2.0564	56.6	\$30,638,818	843
Missouri	279,121	13,956	\$1,000	\$13,956,050	2.1607	51.2	\$30,154,837	715
Montana	44,932	2,247	\$1,000	\$2,246,600	1.9232	54.4	\$4,320,661	122
Nebraska	74,031	3,702	\$1,000	\$3,701,550	1.9547	55.7	\$7,235,420	206
Nevada	75,332	3,767	\$1,000	\$3,766,600	1.8068	39.5	\$6,805,493	149
New Hampshire	37,915	1,896	\$1,000	\$1,895,750	2.0306	48.0	\$3,849,510	91
New Jersey	338,193	16,910	\$1,000	\$16,909,650	2.2455	42.2	\$37,970,619	714
New Mexico	127,900	6,395	\$1,000	\$6,395,000	2.0401	52.9	\$13,046,440	338
New York	830,710	41,536	\$1,000	\$41,535,500	2.0153	39.0	\$83,706,493	1,620
North Carolina	505,333	25,267	\$1,000	\$25,266,650	2.0402	52.3	\$51,549,019	1,321
North Dakota	26,848	1,342	\$1,000	\$1,342,400	1.9739	58.3	\$2,649,763	78
Ohio	472,901	23,645	\$1,000	\$23,645,050	2.2279	54.5	\$52,678,807	1,289
Oklahoma	202,588	10,129	\$1,000	\$10,129,400	2.1117	51.8	\$21,390,254	525

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	1992 EITC Participation Rate (HHs)	Additional HHs Given 5% Participation Increase	Average EITC Benefit	Aggregate Increased EITC Benefits	Retail Multiplier	Retail Jobs	Increased Economic Activity	Increased Jobs
Oregon	142,147	7,107	\$1,000	\$7,107,350	2.0402	49.8	\$14,500,415	354
Pennsylvania	465,021	23,251	\$1,000	\$23,251,050	2.2847	51.2	\$53,121,674	1,190
Rhode Island	36,204	1,810	\$1,000	\$1,810,200	1.9090	46.8	\$3,455,672	85
South Carolina	295,057	14,753	\$1,000	\$14,752,850	1.9834	55.2	\$29,260,803	814
South Dakota	37,156	1,858	\$1,000	\$1,857,800	1.8899	59.0	\$3,511,056	110
Tennessee	361,580	18,079	\$1,000	\$18,079,000	2.1375	52.5	\$38,643,863	949
Texas	1,415,644	70,782	\$1,000	\$70,782,200	2.4522	52.1	\$173,572,111	3,688
Utah	79,094	3,955	\$1,000	\$3,954,700	2.1618	58.7	\$8,549,270	232
Vermont	24,024	1,201	\$1,000	\$1,201,200	1.8921	50.9	\$2,272,791	61
Virginia	316,935	15,847	\$1,000	\$15,846,750	2.1324	50.2	\$33,791,610	796
Washington	203,952	10,198	\$1,000	\$10,197,600	2.0980	48.0	\$21,394,565	489
West Virginia	96,848	4,842	\$1,000	\$4,842,400	1.7546	53.1	\$8,496,475	257
Wisconsin	182,151	9,108	\$1,000	\$9,107,550	2.0376	55.8	\$18,557,544	508
Wyoming	23,260	1,163	\$1,000	\$1,163,000	1.7973	54.0	\$2,090,260	63