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Saving New Jersey's Middle Class

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Saving New Jersey's Middle Class

Executive Summary

America's middle class forms the heart of our society, and nowhere is this truer than in the state of New Jersey. In this paper, we attempt to narrow an admittedly broad definition of what it means to be a part of the middle class. Our definition revolves around the aspirations those who belong to the middle class profess; these include, but are not limited to: homeownership, access to well-paying jobs, adequate health care, access to higher education, and a fair and beneficial tax system.

Over the past 40 years, however, and particularly since 1990, the fortunes of the middle class have been in decline. Wages have remained stagnant for most of the state's population, except for those at the top. Even those who, by income, we would consider middle class or upper middle class saw barely an increase over their 1990 income levels. Only the very uppermost of the state's earners found a higher paycheck and a greater share of the state's wealth. Many of the aspirations mentioned above have become harder to reach for many in the middle class: home prices rose, health care costs rose exponentially, and the cost of sending a child to college rose, all while jobs left the state and wages failed to keep pace with inflation.

New Jersey has enacted (or failed to act on) numerous policy areas that have not been beneficial to this trend. The state's tax policy could be reworked to better aid the middle class, and boost the fortunes of those aspiring to gain access to the middle class. New Jersey's recent efforts boosting the minimum wage should be strengthened and the wage boosted even further. The state can and should do more to help educate young children, forming the bases to an informed, educated life. New Jersey's higher education system should also be strengthened, in order to provide its graduates with the necessary skills to compete for well-paying jobs. Finally, the state's infrastructure, already so critical to the functioning of the economy, must be maintained and repaired.

Introduction

The middle class has been the backbone of the American economy since the end of World War II. Since the 1960s, middle class incomes have declined. According to United States Census Bureau data, the national median income, adjusted for inflation, was lower in 2012 than it was in 1969. The United States Department of Commerce and Vice President Joe Biden's office defined middle class aspirations in a 2010 report. The aspirations include home ownership, one car per working adult, adequate healthcare, college education for the children, a secure retirement, and an annual family vacation. Since 1990, the cost of middle class aspirations has increased rapidly. The combination of stagnant incomes and the rising costs of these aspirations have priced the middle of the income distribution out of a middle class lifestyle.

This report will focus on the decline of the middle class in New Jersey, and will examine how and why many of the state's citizens are no longer able to meet middle class aspirations. One of the major drivers of a healthy middle class lifestyle, particularly in a state as expensive as New Jersey, is well-paying employment. Historically, New Jersey hosted major manufacturing centers, centered on the urban regions of New York City and Philadelphia. During the recessions of the 1970s, these manufacturing jobs began to disappear, through plant closures and the movement of these employment sectors to other regions and overseas. By 1990, manufacturing represented approximately 15 percent of the state's jobs. In 2010, this number shrank to less than 7 percent. Manufacturing jobs had provided a healthy income to many of the state's families, and the loss of these jobs caused many families to lose their economic security. This security has not been replaced by the rise of relatively low-paying jobs in the service sector, and the requirements for high-paying jobs have become even more stringent. In the period during and after the Great Recession beginning in 2008, even low-paying jobs became so scarce that many people gave up looking for work and left the labor force.

To address these issues, this report focuses on policy areas that impact the middle class in New Jersey: tax expenditure reporting, the Earned Income Tax Credit (EITC), education, higher education, workforce development, and infrastructure. This examination will address explicit policies by state officials, implicit trends within the state's population and workforce, and failures (or decisions not to act) on the part of state policy-makers. These policies changed drastically over the period this report covers. Several new taxes were introduced during this time, including the income and sales taxes. Education requirements, spurred by the Abbott decisions and changes in education funding, have also changed dramatically. The state provided numerous tax expenditures and investments, which have unknown distributional impacts.¹ Transportation and infrastructure, both of which serve a vital role in the state's economy, have shifted in form and type over the years, and the state struggles to maintain a modern and efficient infrastructure network.

¹ *A Report on Tax Expenditures in New Jersey*. New Jersey Department of the Treasury Division of Taxation, 21 Feb. 2014. Web. 29 Apr. 2014. <<http://www.state.nj.us/treasury/taxation/pdf/taxexpenditurereport2010.pdf>>

We will recommend policy changes in the aforementioned areas. It is our belief that these changes, if implemented, will go a long way to help the middle class regain its former strength. The middle of the income distribution should be able to afford middle class aspirations. Those toward the bottom of the income distribution should have the opportunity to reach the middle class. Middle class aspirations are currently only affordable for the wealthiest residents of our state. This problem will not fix itself. Only deliberate, responsible policy changes will mitigate these trends.

The Dwindling Middle Class

New Jersey's top 1 percent of earners received all of the income increases between 2009 and 2011. The state is home to the eighth largest gap between the 1 percent and the rest; the top earns almost 24 times as much as the bottom 99 percent. That is, the top 1 percent earns, on average, \$1.3 million and the bottom 99 percent earns \$54,864.² This is a sign of a dying middle class as the U.S. has experienced stagnated income, a result of a distribution that mainly goes to the top.³ Income inequality has increased to levels not seen since "The Gilded Age" or "The Gatsby Age," and is a contributing factor to slower and/or non-existent income growth to the middle class.

Who or What is the Middle Class?

Who is in the middle class? The answer depends on whom you ask. Politicians, television, and radio personalities all seem to be arguing to save and protect the middle class. President Obama has worked to keep in place middle class tax cuts. However, the qualification for middle class income in 2012 was a single earner making \$200,000 or a joint filer making \$250,000. About 99 percent of America would not be able to earn that much in 2013.⁴ America is not composed of 99 percent middle class. Therefore, a little clarification is obviously needed.

We define the middle class in two ways. The first is subjective and based on "aspirations" of middle class lifestyle: ability to save money, to maintain homeownership, a car per working adult, a vacation every other year, retirement planning, affordability of higher education, and health insurance.

The second is defined as earning an income that is in the middle of the income distribution; many experts also use the median as a marker for the middle class. To reach upper-middle class, one needs to earn double the median. To classify as lower-middle class, one needs to earn half of the median. These

²Sommeiller, Estelle, and Mark Price (2013). The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011. Accessed on April 28, 2014. < <http://www.epi.org/publication/unequal-states/>>

³Kenworthy, Lane. (2013) Has Rising Inequality Reduced Middle-Class Income Growth? Economic Disparities and the Middle Class in Affluent Countries. Stanford UP. Accessed on February 15, 2014. <<http://www.u.arizona.edu/~lkenwor/2013hasrisinginequalityreduced.pdf>>.

⁴Gleckman, Howard (2012). How Can 98 Percent of Us Be Middle-Class? Tax Policy Center. Accessed on January 25, 2014. <<http://taxvox.taxpolicycenter.org/2012/11/26/how-can-98-percent-of-us-be-middle-class/>>.

classifications are related to the cost of living, which can be different among states. The middle class income adjusted to today's values from a 2010 study is seen in Figure 1.⁵

Figure 1. U.S. Middle Class Incomes

| | |
|--------------------|-----------|
| Lower Middle Class | \$26,281 |
| Middle Class | \$44,491 |
| Upper Middle Class | \$105,123 |

A strong middle class has always been one of the signs of a healthy, fair, and just democracy. It builds social trust and conforms to the idea of the American Dream of hard work being rewarded with success. However, a middle class income is no longer enough to make one be considered middle class anymore. When compared to the high costs of living in New Jersey, as shown in Figure 2, the middle class income does not even pay for the basic necessities of life.⁶ The values in Figure 2 have been adjusted from a 2012 study that used 2011 dollars.

Figure 2. Real Cost of Living in New Jersey

| | |
|-------------------------------|----------|
| Single Adult | \$29,844 |
| One Adult Two Children | \$59,353 |
| Two Adults Two Children | \$67,048 |
| Two Adults Two Pre-K Children | \$76,581 |

New Jersey is the fifth most expensive state to live in, and costs of living continue to increase.⁷ With stagnant incomes, there is little hope for the middle class to grow or to stabilize; it will continue its downward trend. Approximately 25 percent of workers in N.J. do not meet those costs.⁸ Another study found that 34 percent of households in N.J. do not earn an income that meets those costs.⁹ This implies that they are not living comfortably. They are not living the occasional leisurely life of a middle class family, as they cannot meet the bare costs of life, let alone middle class life. They are struggling to attain the comfortable life they believed would accompany their income.

5 Pizzagati, Sam. (2010) *Long Live The Statistical Middle Class!* Labor Studies Journal Vol. 35 Number 3. Accessed on January 24, 2014.

6 Lichtenstein, Allan (2013). *The Real Cost of Living. What It Takes To Meet Basic Needs and Avoid Deprivation*. Legal Services of New Jersey. Accessed on January 25, 2014. <<http://www.lsnj.org/PDFs/RCL2013.pdf>>.

7 Cohn, Scott (2013) The Most Expensive U.S. States to Live in. Yahoo Finance. CNBC, Accessed March 08, 2014. <<http://finance.yahoo.com/news/the-most-expensive-state-to-live-180732578.html>>.

8 Lichtenstein, Allan (2013). *The Real Cost of Living. What It Takes To Meet Basic Needs and Avoid Deprivation*. Legal Services of New Jersey. Accessed on January 25, 2014. <<http://www.lsnj.org/PDFs/RCL2013.pdf>>.

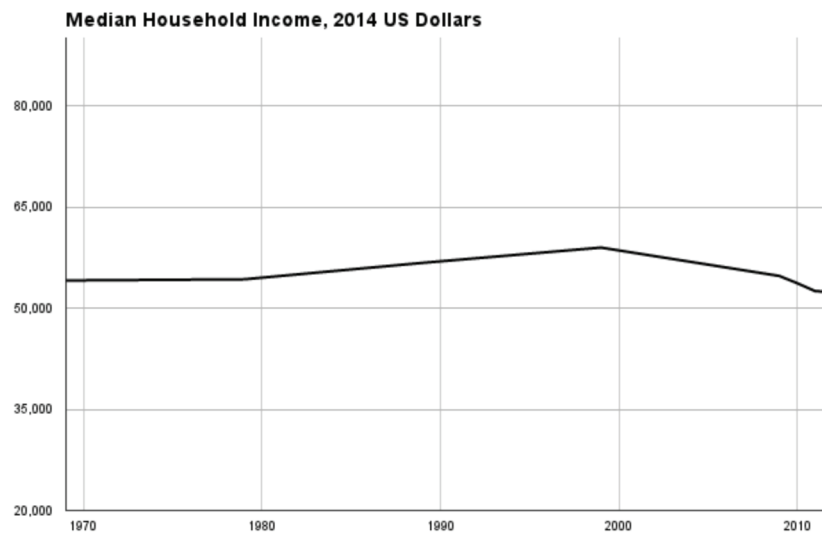
9 Hoopes Halpin, Stephanie (2012). *ALICE - Asset Limited, Income Constrained, Employed: A Study of Financial Hardship in New Jersey*. United Way of New Jersey. Accessed February 10, 2014. <<https://www.uwcj.org/pdf/alice.pdf>>.

United States Middle Class Trends

The middle class of the United States has been in decline over the last several decades. This concept can be illustrated through changes in the income distribution as well as changes in the cost of middle class aspirations. First, we see that the growth of incomes in the middle of the distribution is stagnant.¹⁰ However, the incomes of those at the top of the distribution are growing.¹¹ At the same time, the aspirations of the middle class are becoming more expensive.¹² As a result, higher incomes are needed to realistically support a middle class lifestyle. Deeper analysis of these two issues helps to elucidate the “decline of the middle class.”

The United States Census Department’s historical income data show the magnitude of middle class decline. Several different quantitative trends are instructive. First, real median household income has not increased since 1969. Adjustment for inflation actually shows that median household income was lower in 2012 than it was in 1969. Figure 3 shows this decline.

Figure 3. U.S. Median Income has Declined Since 1969^{13 14 15}



¹⁰ *Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households*. Historical Tables. N.p., n.d. Web. 29 Apr. 2014. <<http://www.census.gov/hhes/www/income/data/historical/household/>>

¹¹ *Ibid.*

¹² *Middle Class in America*. U. S. Department Of Commerce Economics and Statistics Administration, 1 Jan. 2010. Web. 29 Apr. 2014. <<http://www.commerce.gov/sites/default/files/documents/migrated/Middle%20Class%20Report.pdf>>

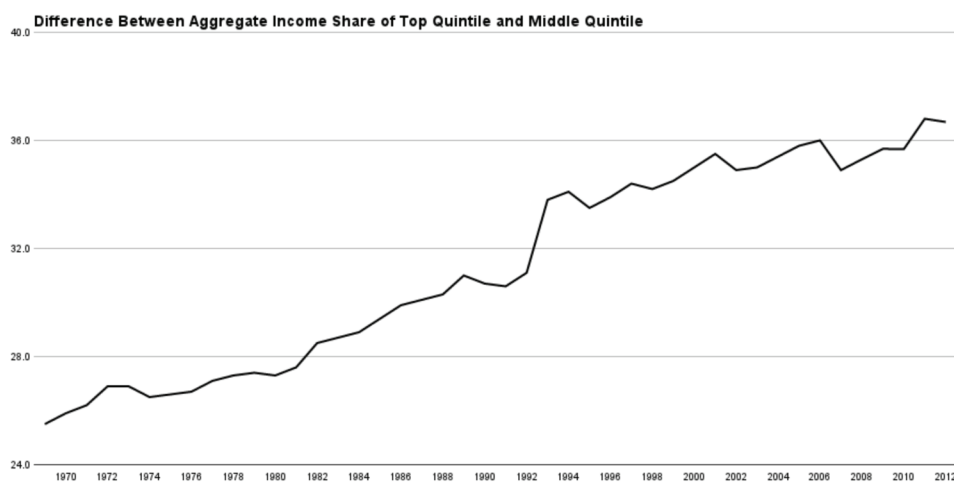
¹³ *Median Household Income by State: 1969, 1979, 1989*. United States Census Historical Income Tables. N.p., n.d. Web. 29 Apr. 2014. <<http://www.census.gov/hhes/www/income/data/historical/household/>>

¹⁴ *Median Income in the Past 12 Months*. American Community Surveys for 2012, 2011, 2010, and 2009.

¹⁵ *CPI Inflation Calculator*. Bureau of Labor Statistics. <<http://data.bls.gov/cgi-bin/cpicalc.pl>>

The flat nature of median household income is not necessarily negative; median household income is simply the income at which half of the households make more and half of the households make less. If the shares of income received by each quintile do not change, then median household income might stay level with no equity effects. However, the shares of income for each quintile have not remained constant. Since 1969, the middle quintile has earned a decreasing share of aggregate income. Over the same period, the highest quintile's share of aggregate income has continued to increase markedly. The difference between the income share earned by the top quintile and the income share earned by the middle quintile has been growing steadily. This trend is illustrated in Figure 4. The vertical axis is the percent difference between the income shares of the top quintile and the middle quintile. The horizontal axis shows time in years.

Figure 4. The Top Quintile is Taking More of the Total Income Pie ¹⁶



These numbers show a troubling trend. They illustrate that the income share won by the top quintile is pulling away from the income share won by the middle quintile. Median household income has not increased in real terms since the late 1960s. At the same time, the aggregate share of income for the top quintile has increased. This has the effect of creating greater inequality.

In addition, the costs of middle class aspirations have been increasing. In 2010, the United States Department of Commerce and the Office of the Vice President issued a report on the middle class in the United States. The report offered a qualitative framework for defining the middle class. Rather than using a strictly-defined income range to define the middle class, the report relied on a set of

¹⁶ *Median Household Income by State: 1969, 1979, 1989.* United States Census Historical Income Tables. N.p., n.d. Web. 29 Apr. 2014. <<http://www.census.gov/hhes/www/income/data/historical/household/>>

common aspirations. Families who can realistically aspire to and achieve these goals are “middle class,” according to the report.¹⁷ The aspirations are:

- Home ownership
- One car for each adult
- Adequate healthcare
- College education for the children
- An annual family vacation
- A secure retirement

The costs of certain aspirations from the list above have been growing rapidly. This is most true for college educations, health care, and housing. The cost of these three aspirations in the United States is illustrated by Figure 5. The chart shows that between 1990 and 2008, after adjusting for inflation, the cost of housing increased by 56 percent, healthcare by 155percent, and college education by 60 percent.

*Figure 5. Cost of Middle Class Aspirations Increasing Rapidly*¹⁸

Price Changes in Key Middle Class Items: 1990-2008

| | Actual 1990 prices | Actual 2008 prices | Actual Price changes | Inflation Adjustment | | |
|--|--------------------|--------------------|----------------------|-----------------------------|--------------------|--|
| | | | | 1990 prices in 2008 dollars | Actual 2008 Prices | Price Changes in inflation-adjusted terms* |
| Housing (median value) | \$79,100 | \$197,600 | 150% | \$126,600 | \$197,600 | 56% |
| Health Care (premiums and out-of-pocket expenses) | \$1,200 | \$5,100 | 325% | \$2,000 | \$5,100 | 155% |
| College | | | | | | |
| Four-year public college (tuition, fees, and room and board) | \$5,200 | \$13,400 | 158% | \$8,400 | \$13,400 | 60% |
| Four-year private college (tuition, fees, and room and board) | \$13,200 | \$30,400 | 130% | \$21,200 | \$30,400 | 43% |

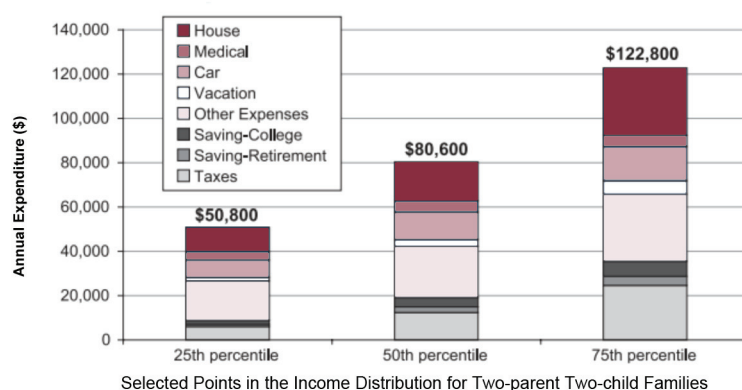
Incomes at the middle of the distribution are stagnant, while the costs of middle class aspirations are rising. Together, these factors combine to create a troubling situation. The families who can achieve the qualitative “middle class” lifestyle are moving further and further away from the middle of the income distribution.

17 *Middle Class in America*. U. S. Department Of Commerce Economics and Statistics Administration, 1 Jan. 2010. Web. 29 Apr. 2014. <<http://www.commerce.gov/sites/default/files/documents/migrated/Middle%20Class%20Report.pdf>>

18 Ibid.

At what point in the income distribution are these middle class aspirations realistic? Figure 6 illustrates hypothetical budgets for two-parent, two-child households looking to achieve the set of middle class aspirations. Although these households all have the potential to achieve the middle class, families toward the lower end of the distribution need to make an extra effort. Figure 6 shows the qualitative difference between the efforts needed to achieve middle class aspirations for households with various incomes.

Figure 6. Middle Class Budgets ¹⁹



The feasibility of reaching these aspirations varies widely, as shown in Figure 7. The aspirations themselves look very different for the 25th and the 75th percentile family. For example, the 25th percentile family relies on CHIP for their children's health insurance coverage.²⁰ College education for the 25th percentile family will come in the form of community college, while the 75th percentile family will likely be able to send their children to private universities, usually by taking loans. These wide variations are shocking, but they do not even consider geographical factors. We can see that "middle class" will be very different for the 25th percentile family and 75th percentile family. However, varying costs of living will cause disparities as well. A household living in a low-cost state like Iowa might be able to follow the \$50,800 path to the middle class shown in Figure 7, but a similarly structured household with the same income in a high-cost New Jersey municipality would almost certainly not. For this reason, we now turn to take a specific look at the conditions in New Jersey.

19 *Middle Class in America*. U. S. Department Of Commerce Economics and Statistics Administration, 1 Jan. 2010. Web. 29 Apr. 2014. <<http://www.commerce.gov/sites/default/files/documents/migrated/Middle%20Class%20Report.pdf>>

20 CHIP is a federal program that gives health insurance coverage to children in families that make too much to receive Medicaid but make too little to afford private coverage.

Figure 7. What the “Middle Class” Looks Like

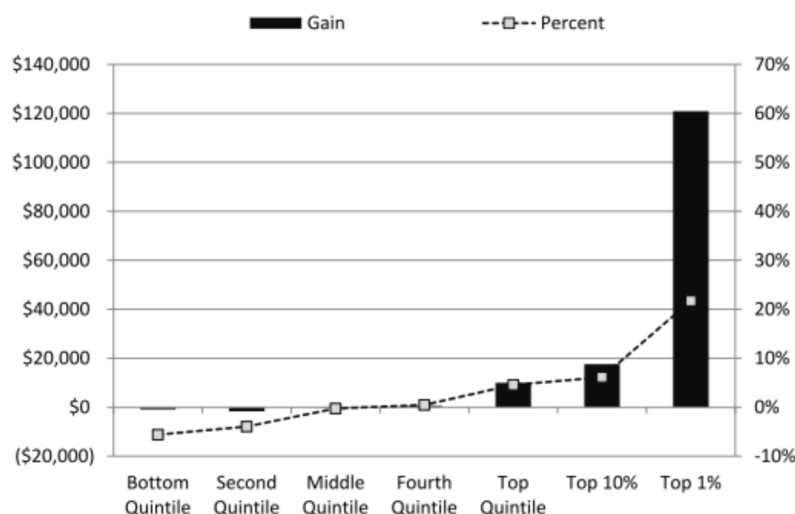
| Annual Income | \$50,800 (25th percentile) | \$80,600 (50th percentile) | \$122,800 (75th percentile) |
|--|---|--|--|
| House <ul style="list-style-type: none"> Total House Value Annual Cost | \$143,800 \$10,900 | \$231,400 \$17,600 | \$400,300 \$30,400 |
| Annual medical expenses | Assumes children are covered by CHIP and a parent purchases health insurance through employer. \$3,800 | Out-of-pocket premiums for employer-sponsored health insurance plus non-covered expenses. \$5,100 | Out-of-pocket premiums for employer-sponsored health insurance plus non-covered expenses. \$5,100 |
| Car ownership <ul style="list-style-type: none"> Annual cost | Two small used sedans with \$7,500 purchase price, driven a total of 25,000 miles/year. \$7,900 | Two medium-sized sedans each with \$20,000 purchase price, driven a total of 25,000 miles/year. \$12,400 | Two large sedans and/or SUVs each with \$30,000 purchase price, driven a total of 25,000 miles/year. \$15,400 |
| Saving for college education to cover 75% of expenses <ul style="list-style-type: none"> Annual cost | Two years of community college plus two years at an in-state public college, with financial aid; assumes live at home with parents. \$1,800 | Four years at an in-state public college with financial aid; live at home with parents for one year. \$4,200 | Four years at private college with financial aid; live on campus. \$6,800 |
| Family vacation <ul style="list-style-type: none"> Annual cost | One week family vacation travel every other year. \$1,500 | One week family vacation travel every other year. \$3,000 | Two weeks of family vacation travel every year. \$6,100 |
| Annual retirement savings needed to achieve a 50% income replacement rate in combination with Social Security <ul style="list-style-type: none"> Annual cost | 2.0% savings rate — \$1,000 | 3.2% savings rate — \$2,500 | 3.3% savings rate — \$4,100 |
| Annual food, clothing, utilities, and other “non-aspirational” expenditures | \$17,900 | \$23,200 | \$30,300 |
| Taxes on income <ul style="list-style-type: none"> Average federal rate Average state & local rate FICA rate Total tax rate Total annual cost | 2.20% 1.90% 7.65% 11.75% \$6,000 | 5.30% 2.50% 7.65% 15.45% \$12,400 | 10.20% 3.50% 6.33% 20.03% \$24,600 |

New Jersey's Middle Class

Historically, New Jersey hosted a variety of industries and professions. These industries provided well-paying jobs to a large and diverse segment of the state's population. However, since the 1970s and particularly over the last 20 years since 1990, the wages—which have driven so much economic activity and enabled millions of households to reach the middle class—have remained stagnant. Only those earners who fall among the highest percentages of total wages have experienced any reasonable growth over the last decade, as Figure 8 shows. These earners, who nominally fall in the top 20 percent, but are really representative of the top 10 or top 1 percent, received the lions' share of all income increases over the decade our data covers.²¹

Figure 8. The Top 1% is Taking all of the Income Gains in NJ

Absolute and Percentage Change in Mean Household Income between 2000 and 2009, New Jersey (2009 Dollars)



Further, the wealthiest earners have been steadily increasing their share of the total wealth produced in the state. Figure 9 shows the increase in wealth this group experienced at the expense of stagnation or losses by the other quintiles.²² More recent data (not included in this chart) suggests that this trend has only continued, as the top 1 percent in particular gained the vast majority of wealth created during the protracted economic recovery from the 2007 recession.

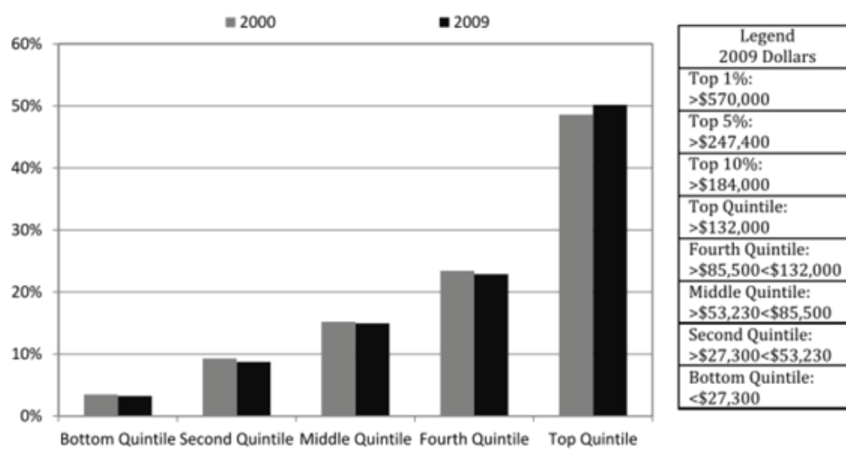
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21 Legal Services of New Jersey (2012). *Income Inequality in New Jersey: The Growing Divide and Its Consequences*. Accessed Jan 29, 2014, <http://www.lsnj.org/PDFs/Income_Inequality_in_Nj_2012.pdf>

22 Legal Services of New Jersey (2012). *Income Inequality in New Jersey: The Growing Divide and Its Consequences*. Accessed Jan 29, 2014, http://www.lsnj.org/PDFs/Income_Inequality_in_Nj_2012.pdf>

Figure 9. The Top Quintile Continues to Do Well in NJ

Distribution of Household Income Share, New Jersey: 2000 and 2009 (2009 Dollars)



The decline in wages and shared wealth for the middle and fourth quintiles has made it much more difficult for those households to achieve the middle class aspirations we have identified so far. The remainder of this section will focus on several of those aspirations, and how healthy wages are necessary for the attainment of some of the most important components of a middle class lifestyle.

Homeownership and the lifestyle it enables remains one of the core elements of a middle class life. However, housing prices experienced massive growth over the last decade, although by the beginning of the 2009 recession many of the gains in housing prices were reversed.²³ Eight counties experienced growth in housing prices over the last decade, even after prices collapsed during the recession. Counties that experienced percentage declines in home sale prices, including Hunterdon, Passaic, and Somerset counties, still posted high average sale prices, making it increasingly difficult for middle class wage earners to afford monthly home payments.

Similarly, there are many residents who cannot afford, or may not have enough credit to take out, mortgages. On average, 30 percent of the residents of any given county are renters; the highest proportion of renters live in Hudson County, where two out of every three residents rent their home, and the lowest proportion of renters live in Hunterdon and Somerset Counties, where fewer than one in six residents rents their home.²⁴ Across each of the states' counties, there is a wide range of rent prices and incomes required to make monthly rent payments. For many counties, the income levels necessary to rent adequately sized homes fall at the heart of the middle class earning distribution. This precludes many earners from even considering purchasing a home, even as they climb the income ladder.

23 National Low Income Housing Coalition (2014). *Out of Reach 2014*. Accessed Mar 26, 2014 <<http://nlihc.org/oor/2014>>

24 National Low Income Housing Coalition (2014). *Out of Reach 2014*. Accessed Mar 26, 2014 <<http://nlihc.org/oor/2014>>

Another critical aspiration included in the middle class lifestyle includes the increasing need for higher education and more advanced degrees. Higher education opens the door for a better life for today's children. However, the costs of education become untenable for the parents of many middle class households. Tuition and fee increases have been steady and consistent over the last twenty years, as Figure 32 shows.²⁵ At the same time, the state has continually reduced its share of the public university systems' budgets, as will be discussed in greater detail below. The confluence of these two trends has led to an increasingly unaffordable higher education system – whether the student attends a community college, a four-year public or private university, the costs are becoming too much for the average middle class family to bear.

One further aspect of a healthy middle class lifestyle revolves around the health care system and health insurance. In order to maintain a productive work and home life, middle class citizens must be healthy and ensure the health of their children and grandparents. However, costs of health care and monthly insurance payments are on the rise, outpacing wage growth for most of the state's earners. Over the last decade, insurance premiums rose on average by 95 percent, which puts many medical procedures or even routine care out of reach for many households.²⁶ As the Patient Protection and Affordable Care Act implements each stage of the new health care reforms, new data will become available regarding premium rates and coverage levels, which represents an important first step in maintaining low rate increases.

The next sections of this paper will focus on specific policy recommendations for addressing the aforementioned issues. These recommendations will be provided along with the appropriate context for understanding how and why the state has become embroiled in each of the issues we will discuss.

25 IPEDS Form 14 (2009). *Average Annual Resident Full-Time Undergraduate Tuition Charges at NJ Public Senior Colleges and Universities: Academic Years 1990-91 through 2007-08*. Accessed on Mar 12, 2014

26 <<http://www.state.nj.us/highereducation/documents/pdf/statistics/tuition/TUITweb08.pdf>>
National Council of State Legislators (2014). *Health Insurance: Premiums and Increases*. Accessed on Mar 29, 2014
<<http://www.ncsl.org/research/health/health-insurance-premiums.aspx>>

Policy Recommendations

Initiate a Distributional Analysis of New Jersey's Tax Expenditure Provisions

Each state produces its own budget on an annual or biennial basis. A budget illustrates revenue collection and spending decisions. By examining a budget, one can gauge the size of the government and its impact on the lives of its citizens. States construct their budgets with unique combinations of revenue and spending. The only constraint is that the chosen level of spending has to be supported by revenue collections. With different revenue and spending levels, states have different amounts of impact on the lives of their citizens.

However, governments allow tax exemptions, exclusions, deductions, credits, preferential rates, and deferrals. Together, these are known as tax expenditures. Tax expenditures are parts of the tax code that act like spending programs. They reduce the level of tax revenue that would otherwise be collected. This is often viewed as a desirable political practice. Tax expenditures have the same effects as traditional spending programs in that they encourage a certain behavior or outcome. However, tax expenditures do not carry the administrative expense associated with spending programs. For example, the largest tax expenditure at the federal level is the mortgage interest deduction. The federal government allows homeowners to deduct the interest portion of their mortgage payments when calculating their income tax liability; this is an attempt to increase home ownership in the United States.

Traditional spending programs are reflected in the budget. However, tax expenditures are not explicitly accounted for in a traditional government budget. Beginning in the mid-1970s, the U.S. began to explicitly account for its tax expenditure provisions.²⁷ The Budget of the United States Government began to include a list of tax expenditure provisions. Over the next few decades, states began this practice as well. State tax expenditure reporting now varies widely in depth of content. It ranges from simple lists of the tax expenditure provisions to full distributional analyses.

New Jersey's tax expenditure reporting leaves much to be desired. The Center on Budget and Policy Priorities (CBPP) released a report in February 2014 titled "Budgeting for the Future: Fiscal Planning Tools Can Show the Way." In this report, the CBPP ranked the states based on their use of ten fiscal planning tools. New Jersey was ranked 49th out of 51 (D.C. was included). One of the ten tools was "effective tax expenditure oversight." A state earned a zero on tax expenditure oversight if it did not produce a tax expenditure budget, or if it did not require expiration dates for individual tax expenditures. New Jersey earned a zero even though it has produced a tax expenditure report since 2010.

New Jersey does not require expiration dates on its tax expenditures. Perhaps a more troubling omission is that of distributional analysis of tax expenditure provisions. There is no explicit record

27 *Analytical Perspectives*. The Fiscal Year 2015 Budget of the United States Government. Page 203.

of the beneficiaries of tax expenditure provisions. Each tax expenditure provision is accompanied by qualitative data pertaining to its legality. Sometimes it is accompanied by a revenue loss estimate for three fiscal years. Sometimes the amount of filers who took advantage of a provision is included. However, the report fails to mention the key statistic of how the provisions benefit citizens with varying incomes.

Are New Jersey's tax expenditures benefiting all income levels equally? Based on New Jersey's data (or lack thereof), we cannot be sure. We can turn to analogous federal data to get a rough answer to this question. A January 2014 report by the Tax Foundation examined the distribution of federal income tax expenditures. This study found that 11 major federal tax expenditures—comprising more than half of the value of all tax expenditures—were distributed most to the lowest and highest income groups. Middle-income groups received the lowest share of these tax expenditures as a percentage of their incomes. Figure 10, based on the top 11 federal income tax expenditures, illustrates this phenomenon.

Figure 10. Federal Income Tax Expenditures Miss the Middle Class ²⁸

Tax Expenditures as a Share of Income, Distribution of 11 Selected Major Tax Expenditures

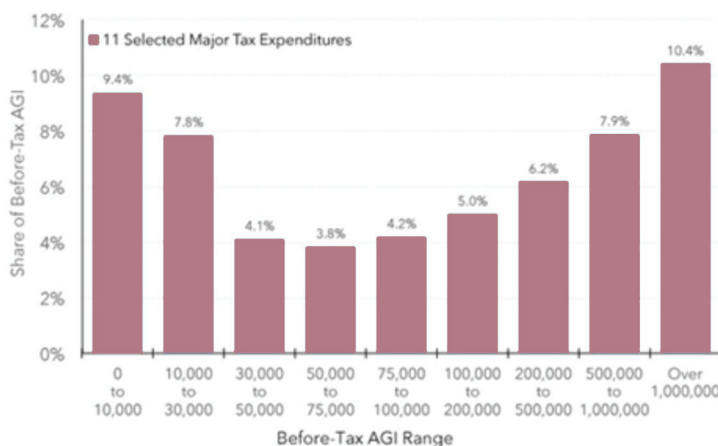


Figure 11 compares New Jersey's and the United States' largest income tax expenditures. There is a striking similarity between the top Federal and top New Jersey income tax expenditures. Thus, it is reasonable to assume that at least a vaguely similar income tax expenditure distribution is present in New Jersey.

28 Schuyler, Michael. *Baked In the Cake: Why the Progressivity of the Income Tax Isn't Visible in the Distribution of Tax Expenditures*. Tax Foundation. N.p., 13 Jan. 2014. Web. 29 Apr. 2014. <<http://taxfoundation.org/article/baked-cake-why-progressivity-income-tax-isn-t-visible-distribution-tax-expenditures>>

Figure 11. Similarity Between Top U.S. and N.J. Tax Expenditures ²⁹

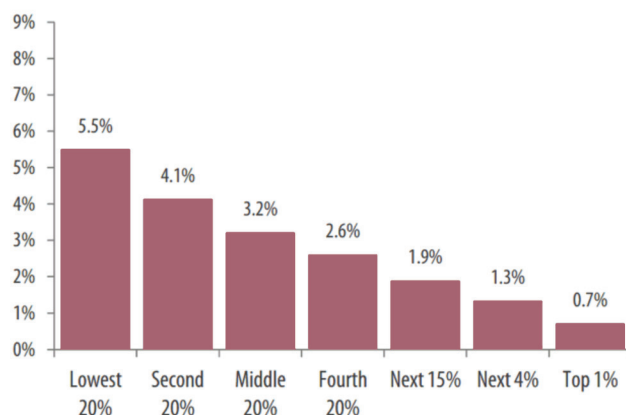
| Top 11 Federal Income Tax Expenditures | Top 11 N.J. Income Tax Expenditures |
|---|---|
| Mortgage Interest Deduction | Credit for Taxes Paid to Other Jurisdictions |
| Property Tax Deduction | Personal Exemptions and Deductions |
| Reduced Tax Rates on long-term capital gains | Property Tax Deduction |
| State and local income tax deduction | Social Security Income Exclusion |
| Accelerated depreciation | Medical Expenses |
| Exclusion from taxable income of employer provided health care | NJ Earned Income Tax Credit |
| Earned Income Tax Credit | Deductions from Business Income |
| Education Credits | Business Employment Incentive Program |
| Child Tax Credit | Unemployment Insurance Exclusion |
| Partial exclusion from taxable income of social security benefits | Pension Exclusion |
| Charitable Deduction | Capital Gain Exclusion on Sale of Principal Residence |

Despite vague structural similarity, however, there is good reason to believe that the middle of the distribution gets a smaller share of tax expenditure benefits in New Jersey. Three differences in New Jersey's tax scheme cause this distortion. First, New Jersey collects a very high amount of revenue via sales taxes. Sales taxes are regressive, as illustrated by Figure 12. This means that they affect a greater portion of lower income families. Therefore, New Jersey's long list of sales tax expenditures provides the greatest benefit (measured as a portion of income) to the lowest income groups. In other words, the lowest earners are hurt most by the sales tax. Therefore, sales tax expenditures give them the most compensatory benefit.

29 A Report on Tax Expenditures in New Jersey. New Jersey Department of the Treasury Division of Taxation, 21 Feb. 2014. Web. 29 Apr. 2014. <<http://www.state.nj.us/treasury/taxation/pdf/taxexpenditurereport2014.pdf>>

Figure 12. Sales Taxes are Regressive ³⁰

Sale and Excise Tax Share of Family Income



Second, New Jersey's income tax rates are more progressive than federal income tax rates.³¹ For example, New Jersey taxes income over \$75,000 at a rate that is 4.5 times higher than it taxes the first \$20,000. This amount of progressivity does not exist anywhere in the federal income tax. Therefore, New Jersey's income tax expenditures offer an even greater benefit to those at the higher end of the income distribution. This is especially true for those making over \$75,000 per year in New Jersey.

Third, the Tax Foundation report points out that the standard deduction and personal exemption are, illogically, not included in federal tax expenditure reports. Thus, they are not reflected in the graph. However, if these provisions were included, the distribution of tax expenditures for the federal income tax would become much more equitable. As a result, the middle class would then get its "fair share" of tax expenditure benefits at the Federal level. However, New Jersey has a smaller personal exemption and no standard deduction. There is no such equalizing effect for New Jersey.

A brief summary of these effects is warranted. First, we established that the income tax expenditures of the Federal government give more benefit to the rich and the poor (as a portion of income) than they give to the middle class. However, once we count the standard deduction and personal exemption (which are for some reason not counted as tax expenditures), the situation evens out at the Federal level. Nevertheless, these effects are not present in New Jersey. Furthermore, New Jersey's use of a sales tax and its corresponding tax expenditure provisions provide an extra benefit to those with the lowest incomes. In addition, New Jersey's more progressive income tax means that its corresponding tax expenditure provisions help those with the highest incomes. Taken together, these effects turn a "U-shaped" Federal tax expenditure distribution into an exaggerated "V-shape" for New Jersey.

³⁰ *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. Institute on Taxation & Economic Policy, 1 Jan. 2013. Web. 29 Apr. 2014. <<http://www.itep.org/pdf/whopaysreport.pdf>>

³¹ *State Individual Income Tax Rates, 2000-2014*. Tax Foundation. N.p., 1 Apr. 2013. Web. 29 Apr. 2014. <<http://taxfoundation.org/article/state-individual-income-tax-rates>>

It stands to reason that the middle class does not benefit as much from tax expenditures as the very poor and very rich. Distributional analyses of tax expenditure provisions would at least draw legislators' attention to this problem. As things stand, legislators have no source of information regarding the distributional effects of the tax expenditure provisions they enact. This blind policymaking is hurting New Jersey's middle class. New Jersey should follow the lead of Vermont and Georgia and engage in distributional analyses of its tax expenditures. Examples of their work in this area are pictured in Figure 13 and Figure 14.

Figure 13. Georgia's Distributional Analysis for a Specific Tax Expenditure ³²

| Total Personal Exemptions | | | | |
|---|-------------------|---------------|-------------------------|------------------|
| Georgia AGI 2009- | Number of Returns | Average Value | Total | Percent of Total |
| GA AGI ≤ 0 | 295,116 | \$4,126 | \$1,217,682,300 | 5% |
| 0 < GA AGI ≤ \$25,000 | 1,542,815 | \$5,168 | \$7,973,630,700 | 35% |
| \$25,000 < GA AGI ≤ \$50,000 | 843,332 | \$6,072 | \$5,120,517,900 | 23% |
| \$50,000 < GA AGI ≤ \$100,000 | 677,437 | \$7,127 | \$4,827,912,300 | 22% |
| \$100,000 < GA AGI ≤ \$500,000 | 378,534 | \$8,497 | \$3,216,232,800 | 14% |
| %500,000 < GA AGI ≤ \$1,000,000 | 11,357 | \$9,120 | \$103,574,700 | 1% |
| GA AGI > \$1,000,000 | 4,659 | \$8,643 | \$40,266,900 | 0% |
| Total | 3,753,250 | | \$22,499,817,600 | |
| Based on full year resident filers only | | | | |

Figure 14. Vermont's Distributional Analysis for its Income Tax Expenditures ³³

| Individual Income Tax Expenditure Summary | | | | | |
|---|--------------------|--|--------------------|------------------------------------|--------------------------------------|
| Tax Expenditure Summary - FY 2011 Vermont Individual Income Tax Returns | | | | | |
| Taxable Income Class (Federal AGI) | Total # of Returns | Total # Receiving at Least One Benefit | Percent of Returns | Total \$ Amount of Tax Expenditure | Average \$ Amount of Tax Expenditure |
| Negative | 4,980 | 500 | 10.0% | 387,320 | 775 |
| None/Missing | 2,410 | 20 | 0.8% | 5,090 | 255 |
| 01 - 4,999 | 26,410 | 5,490 | 20.8% | 774,650 | 141 |
| 5,000 - 9,999 | 26,890 | 8,900 | 33.1% | 3,169,660 | 356 |
| 10,000 - 14,999 | 24,020 | 8,580 | 35.7% | 5,214,130 | 608 |
| 15,000 - 19,999 | 22,660 | 5,810 | 25.6% | 5,503,600 | 947 |
| 20,000 - 24,999 | 21,080 | 5,490 | 26.0% | 4,784,670 | 872 |
| 25,000 - 29,999 | 19,680 | 5,270 | 26.8% | 3,387,690 | 643 |
| 30,000 - 34,999 | 17,590 | 4,750 | 27.0% | 2,057,800 | 433 |
| 35,000 - 39,999 | 15,050 | 3,360 | 22.3% | 1,071,040 | 319 |
| 40,000 - 44,999 | 13,250 | 2,410 | 18.2% | 491,640 | 204 |
| 45,000 - 49,999 | 11,270 | 1,680 | 14.9% | 247,710 | 147 |
| 50,000 - 59,999 | 20,080 | 2,820 | 14.0% | 497,320 | 176 |
| 60,000 - 74,999 | 24,160 | 4,490 | 18.6% | 887,060 | 198 |
| 75,000 - 99,999 | 27,240 | 6,180 | 22.7% | 1,426,500 | 231 |
| 100,000 - 124,999 | 14,260 | 4,000 | 28.1% | 1,154,460 | 289 |
| 125,000 - 149,999 | 7,130 | 2,300 | 32.3% | 905,620 | 394 |
| 150,000 - 199,999 | 6,330 | 2,400 | 37.9% | 1,252,850 | 522 |
| 200,000 - 299,999 | 3,870 | 1,740 | 45.0% | 1,531,360 | 880 |
| 300,000 - 499,999 | 1,860 | 950 | 51.1% | 1,534,020 | 1,615 |
| 500,000 - 999,999 | 790 | 490 | 62.0% | 2,425,800 | 4,951 |
| 1,000,000 + | 330 | 210 | 63.6% | 5,715,490 | 27,217 |
| Total Vermont | 311,340 | 77,840 | 25.0% | 44,425,480 | 571 |
| Total Out of State | 50,680 | 5,260 | 10.4% | 4,217,220 | 802 |
| Grand Total | 362,020 | 83,100 | 23.0% | 48,642,700 | 585 |

32 *Georgia Tax Expenditure Report for FY2014*. N.p., 1 Dec. 2012. Web. 29 Apr. 2014. <<http://www.open.georgia.gov/reports/GeorgiaTaxExpenditures2014.pdf>>

33 *Vermont Tax Expenditures 2013 Biennial Report*. N.p., 15 Jan. 2013. Web. 29 Apr. 2014. <<http://www.leg.state.vt.us/reports/2013ExternalReports/285253.pdf>>

These two figures are examples of the kind of distributional analysis New Jersey should be conducting. The reports show the amount of tax expenditure benefits received by each income group. Perhaps most striking is Georgia; Georgia started tax expenditure reporting around the same time as New Jersey. In this short time, they have adopted distributional analysis while New Jersey has lagged behind. Another lesson can be taken from a comparison of Vermont's and Georgia's efforts. Vermont is a liberal state, whereas Georgia is a conservative state. Yet, they both engage in distributional analysis of tax expenditures. Clearly, tax expenditure reporting is not necessarily a "liberal" or "conservative" political practice. Political ideology differences should not be a formidable barrier.

We have shown that the middle class in New Jersey receives a smaller benefit from tax expenditures than the poor and rich, as a percentage of income. If New Jersey engaged in distributional analysis of its tax expenditure provisions, greater attention would be drawn to this problem. The United States Government Accountability Office supports this claim. The GAO notes that, "...analytical tools such as distributional analysis, which shows tax burden by differing income groups, can be used to measure how the tax expenditure affects taxpayers with varying ability to pay and inform judgments about fairness."³⁴ New Jersey should add distributional analysis of tax expenditures to its tax expenditure report as soon as possible.

How to Change New Jersey's Earned Income Tax Credit

The Earned Income Tax Credit is a component of both national and state tax policy. It is a refundable tax credit that seeks to encourage work. As an eligible individual earns more income (up to a certain point), they receive a larger refundable tax credit. After a certain point, the refundable credit phases out gradually with each additional dollar they earn. In addition, the amount of the tax credit increases with the number of children.

New Jersey offers its own earned income tax credit (NJ EITC). The formula for calculating this credit is simple. An individual multiplies their Federal earned income tax credit (Federal EITC) amount by 20 percent (reduced from 25 percent in 2010).³⁵ New Jersey provides this amount as a refundable credit against New Jersey income tax. Such reliance on the federal definition is problematic for the working and middle classes in New Jersey. New Jersey has an extremely high cost of living, which reduces the effectiveness of the EITC below that of lower-cost-of-living states. As a result, New Jersey should end its reliance on the Federal EITC definition and create its own income limits for the State EITC.

Figure 15 shows the income ceilings at which the Federal EITC is no longer available for 2013. This table only reflects the values for those who are married filing jointly, but the amounts for those who file as single are substantially lower.

34 *Tax Expenditures: Background and Evaluation Criteria and Questions*. Pp. 17-18, 29 Nov. 2012. Web. 29 Apr. 2014. <<http://www.gao.gov/assets/660/650371.pdf>>

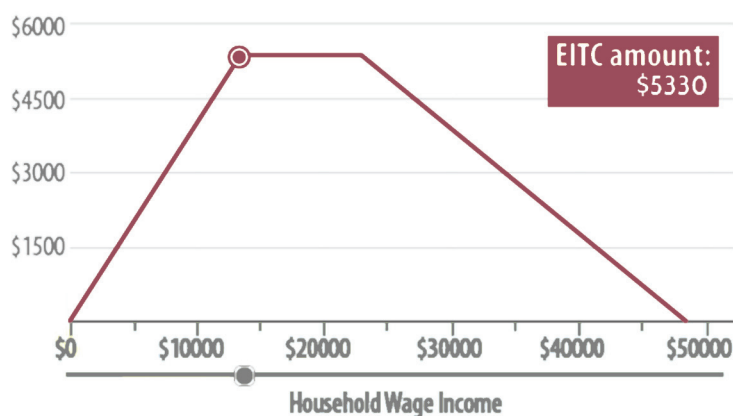
35 *NJ Division of Taxation - Earned Income Tax Information*. NJ Division of Taxation - Earned Income Tax Information. N.p., 29 Jan. 2014. Web. 29 Apr. 2014. <<http://www.state.nj.us/treasury/taxation/eitcinfo.shtml>>

Figure 15. Federal EITC becomes Unavailable Quickly ³⁶

| Married-Filing Jointly Household Type | EITC no longer available at income of... |
|---------------------------------------|--|
| Childless | \$19,680 |
| One Child | \$43,210 |
| Two Children | \$48,378 |
| Three or More Children | \$51,567 |

The EITC is touted for its ability to encourage work. However, this is only true up to a certain point. For any household structure (one or two adults with one, two, or three or more children), the Federal EITC amount has the same shape when compared to income. First, as income increases, the filer gets a larger EITC. Then, after a certain point, the filer's EITC amount remains stagnant even as their income rises. Finally, after a certain point, the filer's EITC amount decreases in value as they earn more. Figure 16 shows this using a married-filing-jointly household with two children as an example.

Figure 16. The EITC Does Not Continuously Reward Work ³⁷



As discussed above, this graph has two critical points. Moving from left to right, we see that the first is the “level-off” point. After this point (when the graph becomes flat), a filer gets no additional EITC as their income increases. The second is the “losing-EITC” point. After this point (as the graph starts to slope downward), a filer loses EITC as their income continues to increase. These graph traits are true for all household types, just with different income values for the two critical points. Figure 17 shows the critical points for all married-filing-jointly household types. The data are for 2013.

36 Policy Basics: The Earned Income Tax Credit. N.p., 31 Jan. 2014. Web. 29 Apr. 2014.
<<http://www.cbpp.org/cms/?fa=view&id=2505>>

37 Ibid.

Figure 17. When the EITC Stops Rewarding Work, and When it Costs to Work ³⁸

| Married-filing-jointly household type | Annual Income amount for the "Level-off" Critical Point | Annual Income amount for the "losing-EITC" Critical Point |
|---------------------------------------|---|---|
| Childless | \$6,370 | \$13,310 |
| One Child | \$9,560 | \$22,870 |
| Two Children | \$13,430 | \$22,870 |
| Three Children | \$13,430 | \$22,870 |

The Federal EITC is often given credit for rewarding work; Figure 17 shows that this claim is not always true. In fact, the EITC only rewards work up to the "level-off" point. After this point, a filer gets no tax reward for extra work. After the second critical point, when the graph starts to slope downward, a worker starts to lose EITC when they earn more. This kind of tax system perverts the incentive for an individual to work.

Since New Jersey uses the Federal EITC definition for its own state EITC, these issues are very relevant. This is compounded by the fact that New Jersey is a state with an extremely high cost of living. Incomes that would be considered high in many other states are actually average or below average in New Jersey. Figure 18 shows the 2012 income distributions for New Jersey, the United States as a whole, and two other states with lower costs of living. These are the most current data available from the U.S. Census Bureau.

Figure 18. Income Distributions for the U.S. and Various States ³⁹

| | United States Percent | Iowa Percent | Louisiana Percent | New Jersey Percent |
|------------------------|-----------------------|--------------|-------------------|--------------------|
| Families | 76,509,262 | 796,744 | 1,125,659 | 2,211,642 |
| Less than \$10,000 | 5.0% | 3.7% | 6.6% | 3.8% |
| \$10,000 to \$14,999 | 3.4% | 2.7% | 5.0% | 2.3% |
| \$15,000 to \$24,999 | 8.5% | 7.1% | 10.7% | 5.5% |
| \$25,000 to \$34,999 | 9.2% | 9.1% | 10.4% | 6.7% |
| \$35,000 to \$49,999 | 13.3% | 13.9% | 13.7% | 9.7% |
| \$50,000 to \$74,999 | 19.2% | 22.9% | 18.0% | 16.2% |
| \$75,999 to \$99,999 | 14.0% | 16.7% | 13.3% | 13.9% |
| \$100,000 to \$149,999 | 15.5% | 15.7% | 13.6% | 20.0% |
| \$150,000 to \$199,999 | 6.0% | 4.4% | 4.6% | 10.7% |
| \$200,000 or more | 5.9% | 3.8% | 4.1% | 11.1% |

³⁸ Ibid.

³⁹ American Community Survey, 2012 1-Year Estimates, Selected Economic Characteristics

Previously, Figure 15 showed that the Federal EITC became completely unavailable for all families after they exceeded \$50,270 of income. The New Jersey EITC phased out at the same income level because New Jersey uses the Federal eligibility definition. Figure 19 shows the percentage of families in these varying jurisdictions that make less than \$50,000 per year. Thus, \$50,000 can be thought of as a rough proxy for the 2012 cutoff point for Federal and NJ EITC eligibility.

Figure 19. New Jersey has Fewer Families Making less than \$50k per Year ⁴⁰

| Jurisdiction | Percentage of Families Making Less than \$50,000 per year |
|---------------------|--|
| United States | 39.4% |
| Iowa | 36.5% |
| New Jersey | 28.0% |
| Louisiana | 46.4% |

We see that New Jersey has a relatively low percentage of such families. If New Jersey has a relatively low percentage of families making less than \$50,000 then that means that it might have a relatively high percentage of families failing to qualify for the EITC. In fact, data from the Brookings Institution confirms this suspicion. New Jersey has a low EITC eligibility percentage. Figure 20 illustrates this fact.

Figure 20. New Jersey Has a Very Low EITC Eligibility Rate ⁴¹

| State | 2010 Population, according to Census data | 2010 Total Population in EITC-Eligible Units, according to Brookings Institution | Percentage of State Population in Federal EITC-Eligible Units |
|--------------|--|---|--|
| New Jersey | 8,801,624 | 1,353,562 | 15.38% |
| Washington | 6,744,496 | 1,220,036 | 18.09% |
| Oregon | 3,838,957 | 831,836 | 21.67% |
| Louisiana | 4,544,228 | 1,105,728 | 24.33% |
| Iowa | 3,049,883 | 565,992 | 18.56% |
| Michigan | 9,877,574 | 2,157,405 | 21.84% |
| Connecticut | 3,577,073 | 507,125 | 14.18% |

⁴⁰ Ibid.

⁴¹ *EITC-Eligible Taxpayers: Economic and Demographic Characteristics*, 2010. The Brookings Institution. N.p., 1 Jan. 2010. Web. 29 Apr. 2014. <<http://www.brookings.edu/about/programs/metro/eitc/eitc-profiles>>

A 2013 report by Legal Services of New Jersey (LSNJ) confirms why New Jersey has such a low eligibility percentage.⁴² Families in New Jersey make more money. But, this does not mean that they have a higher standard of living. For example, LSNJ uses 200 percent of the Federal Poverty Level to capture families effectively living in poverty. In reality, families make more and spend more in order to meet the high costs of living in the State. Figure 21 shows the real cost of living (RCL) in New Jersey. What is the RCL? This metric focuses on seven basic-need areas: housing, health care, food, childcare, transportation, inevitable taxes, and other essentials like clothing.

It bears special emphasis that the RCL includes no provision for many expenses considered staples of a decent middle-class existence in New Jersey. There are no savings for retirement or college for children, nothing for purchase of a car or other major items, no set aside for emergency expenses, and no luxuries of any kind—no cable, no restaurant meals or take outs, no vacations.⁴³

Figure 21. Real Cost of Living in New Jersey is Very High

Statewide Weighted Real Cost of Living Averages for Four Selected Family Compositions in New Jersey, 2011

| | Single Adult | One Adult with Two School-Age Children | Two Adults with Two School-Age Children | Two Adults with Two Preschoolers |
|---|--------------|--|---|----------------------------------|
| Hourly RCL* | \$13.75 | \$27.34 | \$15.44 | \$17.64 |
| Monthly RCL | \$2,383 | \$4,739 | \$5,353 | \$6,114 |
| Annual RCL | \$28,593 | \$56,865 | \$64,238 | \$73,371 |
| NOTE: * In the case of families with two adults, the RCL calculation assumes both adults are working. | | | | |

It is certainly true that families in New Jersey have relatively high incomes. But, the high cost of living in New Jersey means that these families are not necessarily better off because of these high incomes. In fact, families in New Jersey become ineligible for the Federal and New Jersey EITCs before they meet the cost of living. This family income “dead zone” is not small. In 2013, a family of two working adults and two children becomes ineligible for the Federal and New Jersey EITCs at \$48,378 of annual family income. Even at an annual family income of \$45,000, the credit would be a paltry \$706.⁴⁴ According to the LSNJ report, this same family does not meet the real cost of living until \$64,238 of annual family income. This means that there is a sizeable range of New Jersey families who receive no Federal or New Jersey EITC and also do not meet the real cost of living.

42 Lichtenstein, Allen, Shivi Prasad, and De Miller. *The Real Cost of Living in New Jersey: What It Takes To Meet Basic Needs and Avoid Deprivation*. Legal Services of New Jersey, 1 May 2013. Web. 29 Apr. 2014. <<http://www.lsnj.org/PDFs/RCL2013.pdf>>

43 Ibid.

44 *Policy Basics: The Earned Income Tax Credit*. N.p., 31 Jan. 2014. Web. 29 Apr. 2014. <<http://www.cbpp.org/cms/?fa=view&id=2505>>

Although New Jersey cannot force the Federal Government to change its EITC definition, New Jersey can change the way in which it calculates eligibility for its own State EITC. The current strategy is a blatant disregard for the fact that New Jersey's cost of living prices families out of EITC eligibility prematurely relative to other states.

The proper policy response would be for New Jersey to come up with a more inclusive eligibility definition for its own EITC. As mentioned before, New Jersey has an extremely low percentage of its population in EITC-eligible households. When compared with other states, New Jersey is in fact near the bottom in EITC-eligibility. However, if New Jersey simply tweaked the income ranges for its State EITC, it could help many more families.

Where should New Jersey set its income ranges? A fair start would be to coordinate them with the RCL. If the RCL for two adults and two children was roughly \$64,000 in 2011, it could start there. The NJ EITC should be available for all families making up to \$64,000. This would be an unnecessary proposal in low-cost states. In New Jersey, it is more than fair. Earned Income Tax Credits are supposed to reward work for families in the working class. Any family earning less than the RCL in New Jersey should be a candidate for such assistance.

As Figure 16 showed, the Federal EITC value first flattens out, and then decreases, as income rises. Although this structure is not ideal because it does not reward work across the eligible income distribution, New Jersey could still go a long way by keeping the structure and bumping up the values of the critical points. Previously, Figure 17 showed the "level-off" and "losing-EITC" critical points for a household of two adults and two children. New Jersey should raise these values, as well as the eligibility ceiling, in order to be more inclusive. Figure 22 compares the current structure shared by the Federal government and New Jersey (for 2013) with our suggestion for a more inclusive New Jersey structure.

Figure 22. New Jersey Should Adopt a More Inclusive State EITC Definition

| Critical Point | Current Federal and NJ Structure | Proposed More Inclusive NJ Structure |
|--------------------------|----------------------------------|--------------------------------------|
| EITC Value Flattens Out | \$13,430 | \$20,000 |
| EITC Value Decreases | \$22,870 | \$45,000 |
| EITC No Longer Available | \$48,378 | \$65,000 |

This adjustment would help many New Jersey families. Figure 23 shows the distribution of income in the state. The State EITC currently cuts off in the \$40,000-\$50,000 income range. This range has 267,700 filers. However, our proposal involves breaking into the \$50,000-\$75,000 range, which has 506,600 filers. In fact, this income range is the second largest. Our proposed changes result in the State EITC reaching this large group of people, many who are in households that do not meet the RCL in New Jersey.

The 2013 Federal definition for the EITC calls for it to begin decreasing at \$22,870 for a family of two married adults with two children. For this family, it then becomes completely unavailable at \$48,378. New Jersey should move away from these numbers for its own definition. The EITC amount should start to decline after a family reaches \$40,000 in annual income. The EITC should not be unavailable until a family meets the RCL of roughly \$65,000.

In 2010, two-parent two-child families in New Jersey lost the EITC entirely after they passed \$45,373 in annual income. We advocate that this number to be increased by about 43% (to \$65,000). This will not only increase the upper limit, but it will also make more families eligible. Specifically, many of those in the \$50,000-\$75,000 range will now be able to receive EITC from NJ. If we assume that one-fourth of the returns in this newly reached income bracket are eligible for EITC under our proposed definition, this will mean that there are now 125,000 more eligible returns. If we assume that each of the eligible returns counts for three EITC recipients, then New Jersey will be giving the EITC to 375,000 more individuals. Based on the 2010 cost of \$165 per EITC-eligible individual, New Jersey would have to spend \$61.9 million more per year to implement our proposal.

Figure 23. Proposed State EITC Change will Reach Many More Households ⁴⁵

| Gross Income | Returns (000) |
|--------------------------------|---------------|
| exactly \$0 | 166.2 |
| \$0 under \$5,000 | 320.6 |
| \$5,000 under \$10,000 | 298.2 |
| \$10,000 under \$15,000 | 274.5 |
| \$15,000 under \$20,000 | 241.6 |
| \$20,000 under \$25,000 | 209.5 |
| \$25,000 under \$30,000 | 190.2 |
| \$30,000 under \$40,000 | 330.9 |
| \$40,000 under \$50,000 | 267.7 |
| \$50,000 under \$75,000 | 506.6 |
| \$75,000 under \$100,000 | 309.7 |
| \$100,000 under \$200,000 | 596.2 |
| \$200,000 under \$500,000 | 204.9 |
| \$500,000 under \$1,000,000 | 32.2 |
| \$1,000,000 under \$1,500,000 | 7.4 |
| \$1,500,000 under \$2,000,000 | 2.8 |
| \$2,000,000 under \$5,000,000 | 3.9 |
| \$5,000,000 under \$10,000,000 | 0.8 |
| at least \$10,000,000 | 0.4 |
| Total | 3,964.2 |

⁴⁵ "State of New Jersey Department of the Treasury Statistics of Income." 2011 Income Tax Returns Tax Filing Date April 12, 2012." N.p., 1 Jan. 2013. Web. 29 Apr. 2014. <http://www.state.nj.us/treasury/taxation/pdf/pubs/soi_tables2011.pdf>

To be sure, this imposes an administrative cost. This administrative cost would render the proposition unnecessary in states where the Federal definition is adequate. However, New Jersey is not well served by relying on the Federal definition. The New Jersey EITC has been reduced to a poverty program due to the state's high cost of living. Therefore, the working class does not receive the help it deserves.

One state has already ended its reliance on the Federal definition. Minnesota calculates its State EITC offering as a percentage of family income rather than as a percentage of the Federal EITC offering. This should give New Jersey policymakers confidence. Minnesota ended its reliance on the Federal definition so that it could better meet the policy issues facing the State.

New Jersey can follow Minnesota's lead in ending reliance on the federal definition in order to address a pressing policy issue. The issue, as outlined above, is that working class families in the State are earning relatively higher incomes but are forced to pay a higher cost of living. They are left with nothing to show for this but ineligibility for the Federal and State EITCs. New Jersey should change the State EITC definition in order to fix this problem.

New Jersey's Minimum Wage

The minimum wage is worth less today than it was in 1969; thus, it purchases less than it did more than 40 years ago. When compared with increased productivity and inflation, the minimum wage is much lower than it would be otherwise. In 1969, the minimum wage was \$1.60, equivalent to \$10.69 in today's dollar terms.⁴⁶ Since its enactment in 1938 at the federal level, the minimum wage rose several times from \$.25 to \$7.25 per hour. The young (16-24) disproportionately represent minimum wage earners (50.6%; teens 16-19 represent 24%), as do part-time workers (64%) and women (78%).⁴⁷ Recently, New Jersey raised its minimum wage to \$8.25 and indexed it to rise annually with inflation, to keep up with rising costs. However helpful this may be to low-income workers, this still does not amount to a living wage.

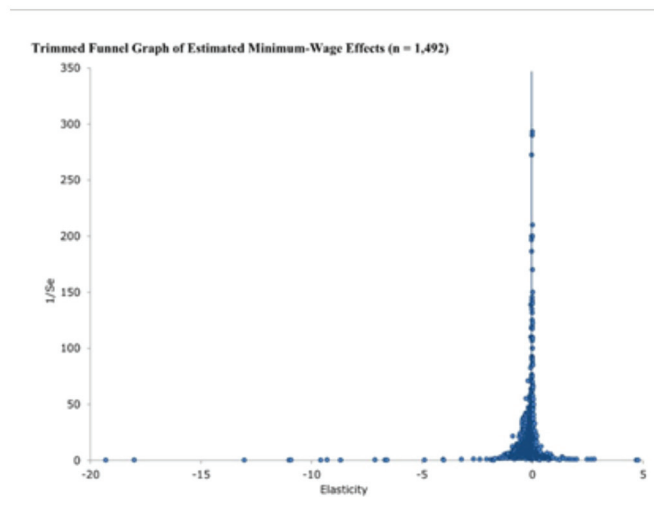
A number of meta-studies (a study based on many other studies) have shown that the minimum wage has little negative effect on employment. John Schmitt analyzes some of these studies and shows that generally, minimum wage increases do not result in job losses.⁴⁸ Doucouliagos and Stanley explored the effects of wage increases on teen employment based on 64 studies with over 1,000 employment estimates. They found insignificant employment effects. Figure 24 shows that a large majority of the estimates is gathered near 0 on the x-axis for elasticity (employment responsiveness to change in price), indicating little or no effect. The outliers are due to not controlling for geographic differences (size and growth of economy varies by state).

46 Schmitt, John (2012). *The Minimum Wage Is Too Damn Low*. Center for Economic and Policy Center. Accessed on February 08, 2014. <<http://www.cepr.net/documents/publications/min-wage1-2012-03.pdf>>

47 Desilver, Drew (2013). *Who Makes Minimum Wage?* Pew Research Center RSS. Accessed on April 30, 2014. <<http://www.pewresearch.org/fact-tank/2013/07/19/who-makes-minimum-wage/>>

48 Schmitt, John (2013). *The Minimum Wage Is Too Damn Low* Center for Economic and Policy Center. Accessed on February 08, 2014. <<http://www.cepr.net/documents/publications/min-wage-2013-02.pdf>>

Figure 24. Most Studies Show that Minimum Wage Raises Don't Reduce Employment ⁴⁹



Second, Dube, Lester and Reich generalized the Card and Kruger's NJ study on the effects of the minimum wage along the N.J./Pennsylvania border. This study replicated the N.J. study thousands of times, comparing employment with different wages through the U.S. with data from 1990-2006. They found that there was faster growth in areas with low minimum wage, slower growth in higher minimum wage regions, and that failure to control for these differences could lead to statistical bias.

Finally, Allegretto, Dube, and Reich conducted a similar study for 1990-2009 that covered the effect on teen employment during the Great Recession. They found that a 10 percent increase in wage reduced teen employment by 1 percent, however when they controlled for regional difference, the negative effect was erased.

Additionally, Schmitt offers several alternatives to reducing employment that managers enact in order to offset increased costs of a higher wage. Such alternatives are: reducing hours, non-wage benefits, training, and profits; increasing skill levels, increasing prices, and expecting higher efficiency from workers; wage compression, increase in demand as people have more to spend, and reduced turnover costs.

If the minimum wage kept pace with increased productivity between 1948 and 2012, would be \$21.72.⁵⁰ This figure is much lower than federal and NJ levels. People should be paid what they are worth as measured by their productivity. A single earner with no children or spouse would generate about \$43,000 with full time and reach middle class income status at \$21.72 per hour.

49 Schmitt, John. (2013) *Why Does Minimum Wage Have No Discernible Effect on Employment?* Center for Economic and Policy Center. Accessed on February 08, 2014. <<http://www.cepr.net/documents/publications/min-wage-2013-02.pdf>>

50 Schmitt, John (2012). *The Minimum Wage Is Too Damn Low*. Center for Economic and Policy Center. Accessed on February 15, 2014. <<http://www.cepr.net/documents/publications/min-wage1-2012-03.pdf>>

Perhaps \$21.72 is too high to set as a minimum wage. Maybe productivity is not the best measure as workers do have different levels of productivity. So, what about inflation? If the minimum wage kept pace with inflation as reported by the Consumer Price Index, the wage would be \$10.52, a modest increase from \$7.25.⁵¹ At \$10.52, this new level is equivalent to about \$21,000 at full time employment. While it falls short of a middle class income even for a single earner (\$29,844), it is an improvement.

In New York, Governor Cuomo has pushed to raise the wage of LaGuardia and Kennedy airport workers to \$10.10 per hour after learning that the 12,000 workers were barely making ends meet.⁵² This has incited Newark Airport workers to demand the same plan that would increase their wages and benefits. Newark workers feel that they should not be left behind as expressed by 50-year old janitor Silvia Valle: "I make about \$520 every two weeks. I don't see why we can't make as much as the New York workers. We all do the same work."⁵³

In March 2014, an Assembly Panel approved a resolution for raising the wages of the 4,000 Newark Airport workers.⁵⁴ However, the resolution does not propose a new minimum wage for the Newark Airport workers and still has to pass the full Assembly. Should it pass, it will do so on an argument that these people need to be paid a decent minimum wage. In fact, all people need to be paid a decent wage and it should increase in New Jersey. It will also add data to the effects of a higher minimum wage on employment.

The minimum wage must continue to be increased in New Jersey. NJ's residents are falling further away from achieving middle class status based on cost of living and income data. They are not even earning a wage equivalent to what it was in 1969! Several states have minimum wages higher than NJ and the federal minimum wage. In fact, 38 states have considered legislation concerning the minimum wage, 34 of which were considering increasing it.⁵⁵ There is also a push at the lower levels of governments to raise the minimum wage as battle at the federal level has stalled. The regional attempts in Maryland (Montgomery and Prince George Counties and Washington, D.C) have pledged to reach a minimum wage of \$11.50 by 2016.⁵⁶ Massachusetts approved a bill to increase the minimum to \$11.00 by July 2016.⁵⁷

51 Schmitt, John (2012). *The Minimum Wage Is Too Damn Low*. Center for Economic and Policy Center. Accessed on February 15, 2014. <<http://www.cepr.net/documents/publications/min-wage1-2012-03.pdf>>

52 Sandoval, Edgar, and Corky Siemaszko (2014). *Newark Airport Workers Demand Wage Hikes in Line with New York Airports*. NY Daily News. New York Daily News. Accessed on April 1, 2014. <<http://www.nydailynews.com/new-york/newark-airport-workers-demand-wage-hike-article-1.1608503>>.

53 Sandoval, Edgar, and Corky Siemaszko (2014). *Newark Airport Workers Demand Wage Hikes in Line with New York Airports*. NY Daily News. New York Daily News. Accessed on April 1, 2014. <<http://www.nydailynews.com/new-york/newark-airport-workers-demand-wage-hike-article-1.1608503>>.

54 Strunsky, Steve (2014). *Assembly Panel Approves Resolution Calling for Newark Airport Minimum Wage*. NJ.com. The Star Ledger/NJ.com. Accessed on April 16, 2014. <http://www.nj.com/news/index.ssf/2014/03/assembly_panel_approves_airport_wage_resolution.html>.

55 National Conference of State Legislatures (2014). *State Minimum Wages/2014 Minimum Wages by State*. Accessed on May 1, 2014. <<http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>>

56 Turque, Bill (2013). *Maryland Jurisdiction Tackle the Minimum Wage*. The Washington Post. Accessed on May 1, 2014. <http://www.washingtonpost.com/local/maryland-jurisdictions-tackle-the-minimum-wage/2013/11/17/4263ad98-4f99-11e3-9fe0-fd2ca728e67c_story.html>

57 Vogtman, Julie (2013). *More States and Localities Move to Raise Minimum Wage as President Calls for Nationwide Increase*. National Women's Law Center. Accessed on May 1, 2014. <<http://www.nwlc.org/our-blog/more-states-and-localities-move-raise-minimum-wage-president-calls-nationwide-increase>>

Figure 25. Real Cost of Living in New Jersey

| | |
|-------------------------------|----------|
| Single Adult | \$29,844 |
| One Adult Two Children | \$59,353 |
| Two Adults Two Children | \$67,048 |
| Two Adults Two Pre-K Children | \$76,581 |

Due to the evidence in this report, the living wage should be increased to at least meet the real cost of living in N.J. for a single adult as shown in Figure 25.⁵⁸ To meet \$29,844, the minimum wage needs to be \$14.95 per hour and indexed to inflation. At the very least, it needs to be increased to \$10.52 to reflect inflation growth over the last 45 years. Other states and localities are part of the movement. New Jersey should not be left out.

New Jersey's Preschool Education

A good education is the pathway to a more prosperous future for our children. Level of education is a good predictor of future earnings and obtaining middle class status. The Earned Income Tax Credit is designed to support low-income workers and it benefits those who are less educated. In 2010, out of all of NJ's EITC eligible filers, 52.8 percent had a high school diploma or less; 29.5 percent had some college or an associate's degree; 17.7 percent achieved a bachelor's degree or higher.⁵⁹ The higher the level of attainment one achieves reduces the chance of earning in the lower income quintiles. Therefore, education is a long-term investment in the country's young people that will pay dividends. We discuss how the High/Scope Perry Preschool, the Abecedarian Project, the Chicago Longitudinal Study, and the Abbott District Preschool Program might help improve the futures of our children.

The High/Scope Perry Preschool Study in Michigan (1962-1967) demonstrated the benefits of a high quality preschool and is the origin of the sound bite: "For every \$1 we spend on education, up to \$7-12 dollars is returned back to society."⁶⁰ The study identified 123 low-income African American children who were considered to be high risk of failing school. Fifty-eight were placed into a program group to receive high-quality preschool while the rest were not. The findings show consistent and significant results that the program group performed better than the non-program group in high school graduation rates, economic performance, crime prevention, and more, as seen in Figure 26.⁶¹

58 Lichtenstein, Allan, et al. (2013). *The Real Cost of Living. What It Takes To Meet Basic Needs and Avoid Deprivation*. Legal Services of New Jersey. January 25, 2014. <<http://www.lsnj.org/PDFs/RCL2013.pdf>>.

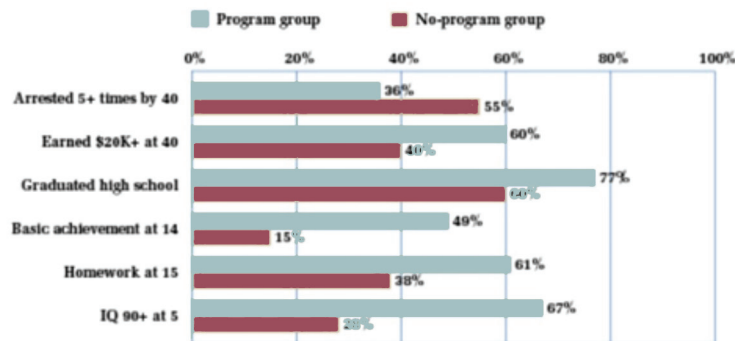
59 Image. *New Jersey 2010 EITC Profile*. Brookings Institute. Accessed on February 14, 2014. <<http://www.brookings.edu/~media/Programs/metro/EITC/states%202012/NJ.pdf>>

60 "Every dollar we invested in high-quality, early education programs can save more than \$7 later on by boosting graduation rates, reducing teen pregnancy, even reducing crime." President Barack Obama 12 February 2013 speech

61 Lawrence J. Schweinhart, et al (2005). *The High/Scope Perry Preschool Study Through Age 40. Summary, Conclusions and Frequently Asked Questions*. High/Scope Press. Accessed on February 20, 2014. <www.highscope.org/file/Research/PerryProject/specialsummary_rev2011_02_2.pdf>

Figure 26. Society Benefits When We Spend on Preschool

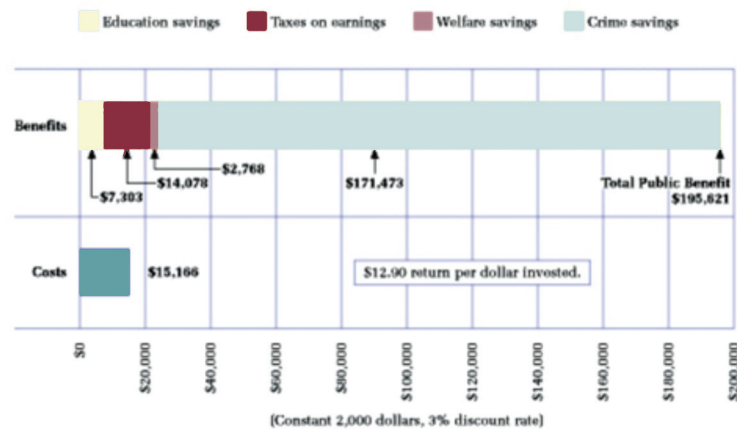
Major Findings: High/Scope Perry Preschool Study at 40



A cost-benefit analysis was also performed on the results and it determined that, in 2000 dollars at 3 percent discount rate (used to determine present value), savings to society from the program per participant investment was \$15,166 and the return to society was \$244,812 per participant. This equals a return of \$16.14 per \$1 invested. By the time the participants were aged 27, this was a \$7.19 return. Figure 27 shows how the savings to society are distributed among education, taxes on increased earnings, welfare savings, and crime savings.⁶²

Figure 27. Benefits of Preschool Outweigh the Costs

High/Scope Perry Preschool Program Public Costs and Benefits



62 Lawrence J. Schweinhart, et al (2005). *The High/Scope Perry Preschool Study Through Age 40. Summary, Conclusions and Frequently Asked Questions*. High/Scope Press. Accessed on February 20, 2014. <www.highscope.org/file/Research/PerryProject/specialsummary_rev2011_02_2.pdf>

The Abecedarian Project in North Carolina was another quasi-experiment to examine the effect of early development on at-risk, low-income children.⁶³ In 1972, the project provided an educational childcare and high quality preschool for children 0-5 from disadvantaged backgrounds. One hundred and twenty families were randomly assigned to either have their children enrolled in the project or not be enrolled but receive free diapers and formula with access to other preschools within the community.

At age 30, a follow up was conducted. There were a number of significant differences. The treatment group was six times less likely to receive welfare during a 7-year period; were almost four times as likely to have graduated college (23% vs. 6%); completed 1.2 more years of education; and were 1.8 years older when their first child was born.⁶⁴

A cost-benefit analysis demonstrated that at three discount rate levels and with costs in the development center and public school replicated. Benefits at each category exceeded the costs as seen in Figure 28, even at discounted rates. A discount rate is an adjustment made to reflect the loss of value in currency over time to represent a present value.

Figure 28. Regardless of Economic Assumptions, Spending on Preschool Makes Sense⁶⁵

Present Value of Per Child Benefits and Costs of the Abecedarian Early Intervention
Data are in 2002 dollars.

| | Discount rate | | |
|---------------------------------------|---------------|----------|----------|
| | 3% | 5% | 7% |
| Program Cost FPG Setting ^a | \$35,864 | \$34,599 | \$33,421 |
| Program Cost PS Setting ^a | \$41,916 | \$40,427 | \$39,041 |
| Program Benefits | | | |
| Part. Earnings | 37,531 | 16,460 | 6,376 |
| Earnings of Future Generations | 5,722 | 1,586 | 449 |
| Maternal Earnings | | | |
| Ages 26-41 ^c | 43,030 | 34,378 | 27,786 |
| Ages 42-60 ^d | 30,578 | 17,561 | 10,299 |
| Subtotal | 73,608 | 51,939 | 38,085 |
| K-12 Education | 8,836 | 7,375 | 6,205 |
| Smoking / Health | 17,781 | 4,166 | 1,008 |
| Higher Education Costs | -8,128 | -5,621 | -3,920 |
| AFDC | 196 | 129 | 85 |
| Total Benefits | \$135,546 | \$76,035 | \$48,317 |
| Net Present Value FPG Setting | \$99,682 | \$41,436 | \$14,896 |
| Net Present Value PS Setting | \$93,630 | \$35,608 | \$9,276 |

63 *Highlights of the Age 21 Follow-up Study*. 1999. Chapel Hill: University of North Carolina, FPG Child Development Center. Accessed on March 15, 2014. <<http://abc.fpg.unc.edu/age-21-follow-executive-summary>>

64 Campbell, Francis et al. (2012) *Adult Outcomes as a Function of an Early Childhood Educational Program: An Abecedarian Project Follow-Up*. Accessed on April 15, 2014. <http://static.vtc.vt.edu/media/documents/245_-_Adult_outcomes_as_a_function.pdf>

65 Campbell, Francis et al. (2012) *Adult Outcomes as a Function of an Early Childhood Educational Program: An Abecedarian Project Follow-Up*. Accessed on April 15, 2014. <http://static.vtc.vt.edu/media/documents/245_-_Adult_outcomes_as_a_function.pdf>

The Chicago Longitudinal Study is a third example displaying the powerful effects of a high-quality preschool.⁶⁶ In this study, 1,529 youth who from disadvantaged backgrounds would receive services or attend preschool and/or kindergarten in twenty Child-Parent Centers. The goals of the study were to examine school and social competencies, evaluate effect of the Child-Parent Centers on the development of youth, understand how early experiences can affect school performance, and discover the effects to a child's success from personal, community, family, and school factors.

At participants' age 21, a cost-benefit analysis was conducted. Preschool participants saw a 33 percent lower rate of juvenile arrest, a 42 percent reduction in arrest for a violent offense, a 41 percent reduction in special education placement, a 40 percent reduction in the rate of grade retention, and a 51 percent reduction in child maltreatment.⁶⁷ At this time, it was determined that benefits exceeded costs. At an average cost of \$6,730 in 1998 dollars, the benefits returned to society equaled \$47,579. This is equivalent to \$7.10 dollars returned for every dollar that was spent.

A proper education is similar to building a house in that you must have a good foundation. This means a high quality and universally available preschool program is necessary. While funding in education has generally been harbored from cuts, the recession has forced many states to cut back spending and have not returned spending to pre-recession levels.⁶⁸

Due to the Abbott rulings, New Jersey already operates a high quality preschool program that has served to decrease the gap between low-income and high-income districts. In Abbott Districts, approximately 80 percent of children are enrolled in preschool. Outside these districts, there is a much greater need. Statewide, approximately 25 percent of NJ's three-year olds and 33 percent of four-year olds are attending some preschool program.

A study measured the effects that preschool in the 21 Abbott Districts had on 2,072 children. The study found sizable and significant increases in three of four measures. The study found that those attending the program at age four had a vocabulary that was 26 percent greater (resulting in a 10 percent increase in average scores); 24 percent (with a 10 percent increase of average scores) higher growth in math, and a 61 percent higher growth for print awareness.⁶⁹

Another analysis on Abbott District fifth grade students found that those who graduated from preschool have moved from the 50th to the 60th percentile in New Jersey's 2011-2012 ASK. The same fifth graders

66 Reynolds, Arthur J., et al (2013). *Age 21 Cost-Benefit Analysis of the Title I Chicago Child-Parent Center Program Executive Summary*. University of Minnesota, Accessed on April 19, 2014. <<http://www.cehd.umn.edu/icd/research/clscbaexecsum4.html>>

67 Reynolds, Arthur J., et al (2013). *Age 21 Cost-Benefit Analysis of the Title I Chicago Child-Parent Center Program Executive Summary*. University of Minnesota, Accessed on April 19, 2014. <<http://www.cehd.umn.edu/icd/research/clscbaexecsum4.html>>

68 Levin, Ezra, and Benjamin Horowitz (2013). *Issue Brief: The Promise of Preschool: New Jersey Policy Perspective*. New Jersey Policy Perspective. Accessed April 03, 2014. <<http://www.njpp.org/reports/issue-brief-the-promise-of-preschool>>.

69 Barnett, W. Steven, et al (2005). *The Effects of New Jersey's Abbott Preschool Program on Young Children's School Readiness*. National Institute for Early Education Research Rutgers—The State University of New Jersey. Accessed on April 6, 2014. <<http://nieer.org/sites/nieer/files/APPLES%205th%20Grade.pdf>>.

who attended two years of preschool closed the gap by 22 percent to 37 percent; a single year of preschool 12 percent to 18 percent. There was also a 40 percent less likelihood of those fifth graders needing to be retained for a grade and they were 31 percent less likely to be classified as needing special education.⁷⁰

Expanding to universal preschool funded by the state should yield a large amount of social benefits. High quality preschools have shown a correlation in creating better students, better citizens, and large social benefits (up to seven times the investment). They have demonstrated that high quality preschool programs improve student performance, reduce likelihood of juvenile and adult crime, increase college graduation, and increase employment/income, many of which can affect one's ability to enter and maintain the middle class status.

Including and beyond preschool, a quality education depends on strategically implementing an enormous amount of funding and maintaining a comparable level of funding for all districts. This use of money ensures that school buildings are maintained, updated; that teachers are developed, trained, and prepared for the sometimes difficult districts; and that high-quality teachers are recruited and incentivized to bring their talent to the low-income districts. According to Quality Counts 2014, New Jersey is ranked 38th in terms of the teaching profession. It received a D+, while the national average was a C. Specifically, the Incentives and Allocations toward the teaching profession, scored a 57.7 compared to the national average of 70.4 and for many categories for managing teacher talent did not even offer that program (such as a mentoring program funded by state).⁷¹

New Jersey's Infrastructure

New Jersey has many opportunities to take advantage of its close proximity to, and participation in, the nation's largest metropolitan region. The region hosts one of the most comprehensive transportation networks in the country, spanning over 23 million people. New Jersey, is for its industrial production; it has significant assets in petrochemical processing, pharmaceutical production, and food production; it also possesses many other economic activities which rely heavily on transportation, especially gambling, tourism, and organized sports. Finally, the state possesses a wide variety of natural resources, including an extensive river system, extended coastal access, and a myriad of environmentally-sensitive areas including the wetlands in the north and the Pinelands in the south. Infrastructure improvements can take advantage of these assets, while being mindful of the environmental legacy left for future generations.

That is why another important focus of policy should be infrastructure—roads, trains, electricity lines,

70 Levin, Ezra, and Benjamin Horowitz (2013). *Issue Brief: The Promise of Preschool: New Jersey Policy Perspective*. New Jersey Policy Perspective. Accessed April 03, 2014. <<http://www.njpp.org/reports/issue-brief-the-promise-of-preschool>>.
71 Education Week (2014). *Education Week's Quality Counts Highlights 2014 New Jersey District Disruption and Revival: School Systems Reshape to Compete and Improve*. Editorial Projects in Education Inc.. Accessed on April 15, 2014. <<http://www.edweek.org/media/ew/qc/2014/shr/16shr.us.h33.pdf>>.

and ports that help keep the economy functioning smoothly. Infrastructure maintenance and upgrades provide the lifeblood to an economy that relies on the mobility of its workers and goods. Almost all economic activity that takes place across the country and within the state makes use, in some part, of the transportation and shipping systems. Access to population centers, industrial regions, and the natural resources necessary to provide for both quality of life and economic production are critical for growth and development.⁷²

Historically, the state invested heavily across many modes of transportation: road, rail, water, and air, utilizing a variety of forms of transit options including buses, light rail, and ferries alongside the state's interstate highway and road networks, heavy rail, and shipping industries. The funding for much of these improvements—along with the inevitable maintenance costs that are inherent to any infrastructure network—derives from the New Jersey Transportation Trust Fund.⁷³ This fund receives its revenues from an appropriation that matches revenues received from a few dedicated sources. These include, but are not limited to: the gasoline tax (10.5 cents per gallon), the petroleum products gross receipts tax (on processed petroleum goods), some tolls, some revenue from motor vehicle registration, and a small portion of sales and use tax revenue.

*Figure 29. New Jersey Needs to Step up Its Infrastructure Spending*⁷⁴

| Type | Spending Needs | Actual Spending |
|----------------|-------------------|--------------------------------------|
| Roads | \$20-\$80 billion | \$2 billion |
| Public Transit | \$10 billion+ | \$1 billion |
| Water | \$40 billion | \$1 billion—mostly through utilities |
| Power | \$20 billion+ | \$1.5 billion—through utilities |

The trust fund appropriated \$1.16 billion dollars in FY2014.⁷⁵ This represents a fraction of what is actually necessary to maintain the infrastructure network and upgrade obsolete or aging components of the transportation network. New Jersey Policy Perspective (NJPP) has estimated the total amount of funding necessary for roads, highways, and bridges alone at \$23.1 billion dollars over the next five years, compared to projected state appropriations of about \$4.8 billion dollars over that time.⁷⁶ These numbers do not necessarily tell the whole story; other funding for infrastructure projects come from other sources including the federal government, and several components of the transportation network are impacted by other authorities, like the NJ Turnpike and the ports under the jurisdiction of the

72 Department of the Treasury Council of Economic Advisors (2012). *A New Economic Analysis of Infrastructure Investment*, accessed on 12 Feb 2014, <<http://www.treasury.gov/resource-center/economic-policy/documents/20120323infrastructurereport.pdf>>

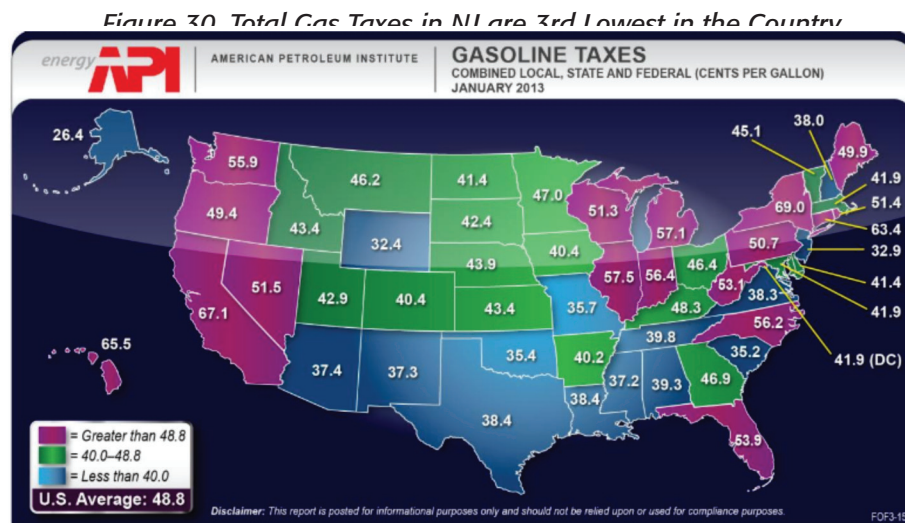
73 New Jersey Transportation Trust Fund (2014) *Appropriation Revenues*, accessed on 11 Mar 2014, <<http://www.state.nj.us/ttfa/financing/apprevenues.shtml>>

74 Keevey, R. (2012). *Infrastructure Needs in New Jersey*, American Society of Civil Engineers, <http://www.cnig.org/s_cnig/bin.asp?CID=10859&DID=61697&DOC=FILE.DOC>

75 FY2014 Budget (2013) *Appropriation Summary*, accessed on Mar 18, 2014, <<http://www.nj.gov/treasury/omb/publications/14budget/pdf/SEction%20B%20-%20Summaries.pdf>>

76 MacInnes, G. (2013) *Invest in New Jersey: Improve Our Roads and Bridges*, New Jersey Policy Perspective <<http://www.njpp.org/reports/invest-in-new-jersey-our-roads-and-bridges>>

Port Authority of NY/NJ. Part of the funding shortfall is a result of the state's low gas tax—which, as mentioned above, is constitutionally bound to provide revenue for transportation projects. This tax has not been raised since 1988, and the state ranks 48th in the nation for gas tax rates.⁷⁷



Other investment and effort beyond raising the gas tax would be necessary, of course, including additional money provided by already-burdened municipalities. The figures cited by NJPP also only take under consideration the maintenance of existing roads, highways, and bridges—not the addition of new ones. Further, roads and bridges only make up a portion of our total transportation system, which include the aging rail networks. Additionally, the non-transportation components of the infrastructure network, like water and electricity, also require extensive maintenance and repair. The long-term costs facing the state are high, but the deficient nature of the system is costing us now in the short-term. The benefits derived from a fully maintained transportation network and infrastructure backbone are immense and would have positive repercussions throughout the state and country. Fully functioning infrastructure serves as an equalizer—providing economic benefits that strengthen the middle class and allow those who are striving to gain access to the middle class a chance to move up.⁷⁸

New Jersey's Higher Education Policies

Education beyond high school graduation is increasingly necessary, as the American economy requires more college-educated jobs to remain competitive globally. In New Jersey, approximately 400,000

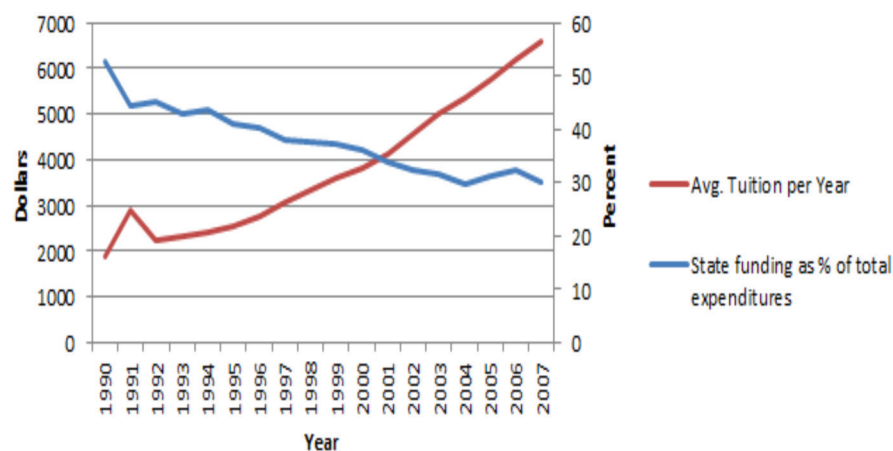
⁷⁷ American Petroleum Institute via the Tax Foundation (2013) *State Gasoline Tax Rates (2009 – 2013)*, <<http://taxfoundation.org/article/state-gasoline-tax-rates-2009-2013>>

⁷⁸ Madland, D. and Bunker, N. (2012) *Ties That Bind: How a Strong Middle Class Supports Public Infrastructure*, Center for American Progress, <http://www.americanprogressaction.org/wp-content/uploads/issues/2012/03/pdf/middle_class_infrastructure.pdf>

students received post-high school degrees in 2010. A portion of these graduates receives their degrees from the state's universities, including the flagship Rutgers University. State funding of these universities is critically important in the struggle to add jobs to the state—especially when those jobs need to be well paying in order to survive in a high cost state like New Jersey.

The state provides funding for the 11 state universities and colleges. In addition, there are 19 community colleges that fall under the auspices of the state Office of Higher Education. These schools provide students a wide variety of opportunities to learn and build skills, enabling those who go through the university system a clearer path to a prosperous middle class life. A major obstacle to entering school at all, however, is the rising cost of tuition (including fees and other associated charges). Even at the state schools, which historically have had lower tuition rates than their private counterparts, tuition rates and fees have risen drastically over the last ten years. At the same time, New Jersey has provided less, by percentage almost every year since the early 1990s. During the 1990s, state support fell by 10%, and fell by an additional 19% in the early 2000s.

*Figure 31 Public Universities are Becoming More Expensive*⁷⁹



These cuts have not left enough money for the difficult task of ensuring that students within the state are able to take advantage of the benefits provided by higher education. Gov. Chris Christie recently proposed new capital bonds to cover new construction around existing facilities, but the appropriation levels need to reflect operating costs as well. Tuition rate increases are largely driven by increases in operating costs. Former Gov. Thomas Kean's Report on Higher Education,⁸⁰ furnished to Gov. Christie in

79 IPEDS Form 14 (2009). *Average Annual Resident Full-Time Undergraduate Tuition Charges at NJ Public Senior Colleges and Universities: Academic Years 1990-91 through 2007-08*. Accessed on Mar 12, 2014 <<http://www.state.nj.us/highereducation/documents/pdf/statistics/tuition/TUITweb08.pdf>>

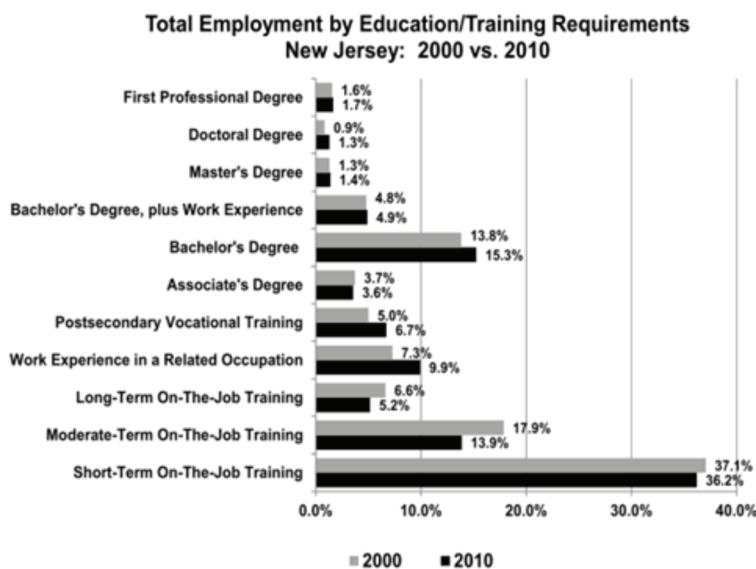
80 *Governor's Task Force on Higher Education* (2010). Accessed on 26 Feb 2014, <http://www.state.nj.us/highereducation/documents/GovernorsHETaskForceReport.pdf>>

2009, indicates several major deficiencies in the state's direct funding for universities, including a need to strengthen the research capacities of the state universities, ease the flow of students into the workforce after graduation, and strengthen the capacity for non-traditional students to complete their degrees.

The state has several programs that help high school graduates attain degrees. Chief among these is NJ Student Tuition Assistance Reward Scholarships (NJ STARS), which provides a direct path through community colleges for high-achieving high school students.⁸¹ NJ STARS and its companion (and successor) program NJ STARS II have allowed low-income students to attend community colleges, and complete degrees at the state's four-year institutions upon completion of GED work. However, these programs have seen their budgets slashed; the scholarships they pay out have been cut in quantity and funding amount. The reversal of this slide is imperative to ensuring lower-income students can continue to have access to a high quality education after high school.

High quality colleges and universities have long provided the backbone to a strong economy in the U.S. and New Jersey in particular. Since the introduction of the Serviceman's Readjustment Act in 1944 (popularly known as the G.I. Bill), expanded access to higher education has provided a path to the middle class for millions of Americans. Many jobs now require higher education, a statistic that is increasing as jobs shift away from unskilled and skilled work in manufacturing to skilled service professions.⁸²

*Figure 32. Higher Education is Becoming More Important,
Largely at the Expense of On-The-Job-Training*



81 Higher Education Student Assistance Authority (2014). *NJ STARS*, accessed on 14 Mar 2014, <<http://www.njstars.net/>>

82 NJ Workforce Development Commission (2012). *Unified Workforce Investment Plan: New Jersey's Talent Connection*, accessed on 21 Feb 2014, <<http://ucnj.org/wp-content/uploads/2010/08/NJ-Unified-Workforce-Investment-Plan-2012-2017.pdf>>

Conclusion

This report has highlighted the troubling trends of the middle class in both the United States as a whole and in the state of New Jersey. In the United States, the middle of the income distribution has been consistently losing ground to the top of the income distribution. In New Jersey, declining wages and job losses in key industries have contributed to middle class decline. We have advanced a set of recommendations in key policy areas that will help to mitigate these trends in New Jersey.

1—New Jersey needs to initiate distributional analyses of its tax expenditure provisions. This is important because at present, there is no explicit record of the beneficiaries of these provisions. Data at the federal level suggest that the rich and poor may benefit more than the middle class. If New Jersey was to initiate explicit distributional analyses, more attention would be drawn to the middle class's relatively low level of benefit in this area. Georgia and Vermont, two states at opposite ends of the ideological spectrum, both conduct distributional analyses. This shows that New Jersey should be able to follow suit, regardless of the present composition of its own legislature.

2—New Jersey needs to create its own income range definition for the New Jersey EITC. The Federal definition contains no adjustment for cost of living. Therefore, New Jersey families are priced out of the Federal EITC prematurely. New Jersey uses the Federal definition, and thus families prematurely miss the State EITC. If New Jersey adjusted its own definition for the State EITC to reflect the high cost of living, then families that are more deserving would benefit from this policy.

3—New Jersey should raise the minimum wage. The State's minimum wage has not kept up with worker productivity or inflation over the last few decades. Families with two working adults should be able to meet the Real Cost of Living by working full time for the minimum wage.

4—New Jersey should expand to universal preschool. There are dramatic societal benefits associated with doing so. This is illustrated by several prominent academic studies. For example, better preschool programs are associated with higher productivity, higher earnings, lower welfare dependency, and lower incarceration rates later on.

5—New Jersey should place a high priority on infrastructure spending. Infrastructure is the backbone of the state economy. Infrastructure helps the working class and middle class get to work, receive goods from abroad, and run businesses.

6—New Jersey should invest more in higher education based on the recommendations put forth in former Governor Kean's report. Doing so would improve access and outcomes for the students. This would increase social mobility.

New Jersey is unique. It has the highest population density in the United States. It sits between two major cities. Over the last few decades, New Jersey's middle class has struggled because of national and local trends. However, the recommendations presented in this report show that New Jersey is not helpless. The state can take policy actions to restore the health of the middle class and reverse negative trends.



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