Editorial: Study offers ways to end 'poverty trap'

It's called by various names -- the "poverty trap" or "welfare wall" or "working in place." But anyone who knows the ins and outs of government assistance to the working poor knows what it means: Earn too much on the job, and government help disappears, while tax rates climb. At some income levels, your family is worse off when your salary grows.

In Minnesota, for a family with one parent and two children that previously qualified for cash, food stamps, health insurance and child care support from government, the welfare wall is highest when the parent's income climbs to between $33,000 and $34,000 per year. At that point, taxes and loss of assistance combine to take away $2.50 for every additional $1 of earned income. Earned income has to surpass $45,000! for most families before work really pays.

That's the finding of a new report, "Disincentives to Earn," available at startribune.com/a2895. It's produced by the Center for Public Finance Research, an arm of the Minnesota Taxpayers' Association. The center's staff are tax professionals, not to be confused with the folks at the Taxpayers' League of "no new taxes" fame. But they are also fiscal conservatives, in the best sense: They suggest smart, efficient tax policies that do what policymakers intend them to do.

For the working poor, high effective marginal tax rates -- the combination of higher taxes and lower government benefits -- aren't smart policy. By discouraging work, they run counter to the goal of every low-income assistance program: self-sufficiency.

The center argues for replacing the state and federal tax code's deductions and exemptions, which work to minimize the taxes of middle and uppe! r earners, with tax credits that are paid as a refund, even wh! en a tax payer owes little or no tax. That way, the incentives and benefits the tax code offers the middle class would be available for all.

Another worthy idea: Redesign government assistance to help low-income people accumulate assets. That's a surer path out of poverty than income assistance alone. The center had good things to say about a small, Gov. Arne Carlson-era matching program for savings by low-income families, FAIM, for Family Assets for Independence in Minnesota. Its pilot produced promising results, but budget constraints since 2002 have kept FAIM small -- too small. The report should get people in the Pawlenty administration looking afresh at what FAIM can do to help low-income Minnesotans climb over the welfare wall.