Economic Security Project

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There's No Path to Affordability Without Putting Cash in People's Pockets

To make life more affordable, policymakers must address broken incomes with commonsense, proven tax credit policies that create tax fairness at the top and bottom

America's affordability crisis is driven by broken markets & broken incomes

Families feel like they're doing everything right and are still falling behind. Over the last 25 years, the cost of basic necessities like housing, healthcare, childcare, and food has risen faster than what families earn. Today, more than 4 in 10 U.S. families can't cover the basics. For Black and Latino families, it's 6 in 10. The affordability crisis is poised to worsen as healthcare costs skyrocket due to devastating funding cuts in HR1, and the advent of AI scrambles the labor market and increases costs across the economy.

Affordability isn't just about high prices. It's about whether people have enough money in their pockets to cover the basic essentials. Broken markets and broken incomes are dual drivers of the current cost of living crisis. Markets are broken because a small number of powerful actors control access to the things families need, and they've learned that limiting supply and obscuring prices is more profitable than fair competition. Incomes are broken because of decades of rules written to boost corporate profits, not paychecks. Families need both: lower prices, *and* robust incomes to cover the basics and more.

Smart, targeted cash policies are a direct, proven way to address broken incomes. After decades of shareholders-over-workers policy, higher wages and stronger labor standards are critical to fix broken incomes. Cash policies like a robust Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) complement strong wages and fill the gaps a paycheck alone can't. Millions of Americans work full-time and still can't afford basic necessities, and millions more, including caregivers, students, retirees, and families between jobs,don't earn a paycheck at all. Cash policies reach everyone and meet them where they are, putting money in their pockets so families have the agency to meet their needs and build the lives they want.

Three forces, decades in the making, are breaking American incomes

Wages have stalled while corporate profits have soared. Worker productivity is at an all-time high, but wages have lagged behind for decades. Since 1979, what workers produce per hour has risen 83%, while wages have grown just 29%. In other words, workers are producing more, but their paychecks aren't rising to reflect it. Wealth inequality is the highest it's been since World War II. The gap between corporate profits and worker wages is larger than it's ever been, fueled by decades of corporate tax cuts and, more recently, unchecked pricing power. The result: today, corporate profits are the highest they've ever been, and wages are at their lowest share of the economy since records began in 1947.

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Workers are generating ever higher profits for corporations, but instead of getting larger paychecks in return, corporations are funneling the gains to ultra-wealthy shareholders. AI's transformation of our economy threatens to widen this gap further as automation displaces workers but enriches the corporations that deploy it.

Even when markets work effectively, incomes fall short, keeping essentials perpetually out of reach for most Americans. This is especially true when wages plummet as people are unable to work (i.e., a life-cycle mismatch).

The biggest costs hit outside peak earning years. Earnings usually climb with experience and peak for people in their 40s and 50s, but the biggest expenses, like starting a family, paying for child care, and earning an education, often come decades earlier. Today, 42% of adults under 30 are "barely getting by." Retirement brings the same crunch, but in reverse. Incomes are capped just as healthcare, and other costs soar. Without Social Security, America's longest-running federal cash program, 37% of seniors would be living in poverty.

Cash is the most effective, proven tool to fix broken incomes

Modernize the Child Tax Credit to help parents with the cost of raising kids

The Child Tax Credit (CTC) is a partially refundable tax credit for most families with kids, worth up to $2,200 per child, per year. As long as a family earns enough money, they can claim the credit at tax time and receive cash as a tax refund. But policymakers need to update the CTC to meet the moment we're in. They can do this by:

Make the credit bigger and give low- and middle-income families the full credit. As currently designed, the CTC has major design flaws. First and foremost, it excludes the lowest-income families from the full credit. The credit is almost completely unavailable to the poorest families — those in the bottom fifth of incomes — whereas the full amount is available to those earning up to $400K. A smart CTC would provide maximum relief to the families who need it most.

The 2021 expanded CTC was an example of a much better model. It increased the credit to $3,000 (and $3,600 for kids under 6) and made the credit fully available to all low- and middle-income families. It was the biggest test of cash policy this country has run so far, and it worked. Monthly payments of $200 to $250 per child gave families more money to cover the costs of inflation, put food on the table, pay for bills and necessities, and access childcare or work training to keep their jobs. Parents eligible for the CTC were 1.3x more likely to start new professional training, and 1 in 4 participants said the payments made it easier to work or work more hours. The larger CTC also produced the largest drop in child poverty on record, especially in rural states where costs are low and poverty is high.

Pay the CTC monthly to help parents balance the budget each month. The monthly CTC was a boon to an economy recovering from a deep recession. During 2021, unemployment was still hovering at 5.3% for the year, more than a third higher than pre-pandemic rates. Average CTC payments of $444 a month to 36M households delivered nearly $20 billion in cash to families, strengthening local economies each month. Analysis also shows that paying the credit monthly reduces reliance on risky financial services like payday and pawnshop loans and makes it better at reducing poverty for longer.

Include a newborn boost for the critical first year. The first year of a child's life is the most expensive and often the most important for a child's development. Birth-related medical costs, infant supplies, and infant childcare (which can exceed the cost of college tuition in many states) all land at once, typically alongside lost wages from parental leave, at exactly the moment when families are least able to absorb the financial hit. Yet under the current CTC structure, a family receives the same credit whether their child is a newborn or a teenager. The American Family Act addresses this by including a baby bonus that delivers $2,400 in the first month of a child's life, bringing the total credit for the first year to $6,360. The case for front-loading support is strong: the first three years of life carry the strongest evidence for positive, long-term returns, with early cash shown to improve brain development, reduce caregiver stress, and produce health and educational gains that compound over decades. A newborn boost puts money in families' hands precisely when costs peak and the developmental stakes are highest.

Recognize that the costs of raising a child don't change based on a parent's immigration status. Because of the damaging changes made in H.R.1, the CTC now completely excludes families if either the child or both parents lack a Social Security number. This includes 2.6 million U.S. citizen children simply because their parents do not have SSNs. The cost of raising a child exists whether a parent has an Individual Taxpayer Identification Number (ITIN) or SSN. The CTC should help all families.

The cost of failing to improve the CTC is too high. When Congress let the expansion expire at the end of 2021, the gains in family income security evaporated almost overnight — and H.R.1 has made things worse, kicking millions of kids off the credit entirely, and doing nothing for the 19 million kids in families who earn too little to get the full credit while increasing the amount for the highest-income families.

A modern CTC must be delivered monthly, increased and made fully available to all low-and middle- income families, include a newborn boost to help during the critical first months, and extended to all families, regardless of immigration status.

Expand the Earned Income Tax Credit to boost income for all workers

The EITC is the largest cash transfer program for low-wage workers and one of the most effective anti-poverty programs in the country. Because it's a fully refundable tax credit, it provides a refund at tax time to (or reduces the tax bills of) low- and moderate-income workers. Credit size and eligibility depend on family size and income, but credits are limited to incomes up to about $70,000 for the largest families. Full credits range from $644 for workers without kids to $8,231 for families with three kids. Average credits are about $2,900.

Provide a minimum credit for the working poor. Like the CTC, the EITC doesn't boost incomes as much as it could, because it leaves out too many of the workers who need it most. Because the EITC phases in from the first dollar of earnings, the lowest-income workers and families receive the smallest credits. A minimum floor of $100 per month would ensure every eligible recipient receives a meaningful benefit regardless of earnings level, providing at least $1,200 a year to the workers who need it most.

Treat family caregiving as the critical labor it is. Family caregivers providing full-time care for children, elderly, or disabled dependents are working, yet today's EITC structure treats their labor as if it doesn't count. Extending a minimum credit to them would provide income support during critical moments like the prenatal-to-three period — where evidence for long-term returns on income support is strongest — and deliver the stronger educational, emotional, and health outcomes that research consistently links to family income stability.

Increase the credit for workers without children in the home. Workers without children receive an average of just $308 — a fraction of what parents with children in the home get — meaning the lowest-paid workers are often taxed into, or further into, poverty. The 2021 one-year federal expansion tripled the credit for workers without dependents and doubled participants from 7.6M to 15.1M. If made permanent, it would benefit 14.5M low-wage working adults, including 3.8M young adults aged 19–24 and 1.6M seniors.

Recognize immigrant workers' contributions. As with the CTC, ITIN filers are categorically excluded from the EITC even when they work, earn income, and pay taxes — an exclusion a growing number of states have already corrected.

Smooth income volatility with monthly payments. Finally, the EITC's annual lump-sum structure fails to smooth dangerous income volatility. A monthly default would give families a predictable income floor year-round. Monthly payment models cut poverty for more of the year and reduce income volatility, giving people the flexibility to pay their bills as they're due, not rack up debt they have to cover at tax time. Together, these reforms would modernize a 50-year-old policy to fit today's workforce. The EITC is a promise that working families won't be left behind by an economy that's left them behind for decades; these modernizations would fulfill that promise.

Raise the minimum wage and strengthen workers' rights to organize

The federal minimum wage hasn't budged from $7.25 since 2009 — the longest stretch without a raise in its history. It's worth less in real terms than at any point in the last 66 years. Corporate consolidation has made this worse: when a handful of large employers dominate a local job market, workers have nowhere else to go. Employers know that and use it as leverage to hold wages below what real competition would force them to pay to attract and retain workers, especially for workers of color.

A higher wage floor and tax credits like the EITC and CTC are strongest in combination: a minimum wage ensures workers have a solid foundation before the credits kick in, and the credits extend income support above it. Strong unions reinforce both by giving workers the bargaining power to hold onto those gains rather than have employers absorb them.

Raise the federal minimum wage. The federal minimum wage has been at $7.25 since 2009, and some workers earn even less than that. Tipped workers can be paid as little as $2.13/hr under federal law, with tips expected to make up the difference. Workers with disabilities can be paid subminimum wages under a Depression-era provision that has no place in a modern economy. And youth workers can be paid a lower training wage for their first 90 days on the job. Raising the federal minimum wage to $25/hour and eliminating these carve-outs so every worker is covered by the same floor would be a direct benefit for 67 million workers, *nearly half of the American workforce*, who currently earn less than $25 an hour. A $7.25 minimum wage is indefensible in 2026.

Make it easier to join a union. Union workers earn $230 more per week than their nonunion counterparts, and union contracts raise wages even for workers who don't belong to one. Restoring and strengthening workers' ability to organize by prohibiting employer interference in union elections, cutting down on misclassification of employees as independent contractors, and ensuring newly formed unions can reach a first contract would better allow workers to negotiate with employers for stronger wages and better working conditions. Restoring worker power is how families capture more of the economy's gains.

Cash works with — not against — an equitable, sustainable tax system

The same forces driving broken markets are driving broken incomes. Decades of tax policy have tilted the economy toward wealth concentration at the top, shrinking paychecks and the public investments working families count on. The 2017 Tax Cuts and Jobs Act returned just 15 cents on every dollar it cost taxpayers, with most of the benefits flowing to billionaires and corporations. HR1 doubled down on that approach. When the wealthy and corporations don't pay their fair share, the rest of us pay more in higher costs, cut services, and a tax base too hollowed out to fund the things that make life affordable.

A tax system worth fighting for must:

1. **Make those at the top pay their fair share.** Corporate income tax revenue is at historic lows even as profits hit records,

and wealthy individuals have benefited from decades of tax cuts that have shifted the burden onto working families.

2. **Protect the tax base.** The investments families count on, including tax credits like the EITC and CTC, require a healthy revenue system that doesn't get raided for short-term political wins.
3. **Rely on stable, predictable revenue streams.** Volatile or one-time mechanisms cannot sustain the long-term programs working families need.
4. **Fund the IRS to enforce the rules.** Every dollar Congress cuts in IRS funding adds nearly a dollar to the national deficit. But an effective, well-funded IRS makes it easy to file taxes and claim valuable credits, and is able to collect what's owed. IRS Direct File proved filing could be free, fast, and simple for millions of taxpayers. And when the IRS is funded, stronger enforcement puts money back in the coffers from high-income households who skirt their tax obligations.

Fixing broken incomes is a choice

The cost of inaction rises every day. Cash makes incomes stronger. It's the most effective, practical tool we have to put real money back in people's pockets, to give them agency in their own lives and close the gap between what working families earn and what life costs.