Statement before the Senate Committee on Finance
Subcommittee on Taxation and IRS Oversight
On Assessing 25 Years of the Child Tax Credit (1997-2022)

Correcting the Record on the Effects of Replacing the Child Tax Credit with a Child Allowance

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Introduction

Chairman Bennet, Ranking Member Thune, and distinguished members of the Subcommittee on Taxation and IRS Oversight, thank you for the opportunity to testify on the Child Tax Credit (CTC). My name is Kevin Corinth, and I am a Senior Fellow and the Deputy Director of the Center on Opportunity and Social Mobility at the American Enterprise Institute. This testimony reflects my own personal views and does not represent those of the American Enterprise Institute, which has no institutional views.

The CTC—the version that we have today—should be celebrated as a bipartisan achievement because it serves the dual purposes of providing tax relief for families and encouraging work. Since it was introduced in 1997, the CTC has become more generous and expanded to more working families, including to those who do not earn enough to pay federal income tax. Research shows that tax credits that incentivize work are successful not only in increasing employment but also in improving the long run outcomes of children.

However, for six months during 2021, the CTC was replaced with something completely different. Congress turned the CTC, provided to working families, into a child allowance provided to all families regardless of their work effort. This reform cost an additional $100 billion annually, likely contributing to the high inflation we have experienced for the past two years. If made permanent, it would lead an estimated 1.5 million parents to exit the workforce. It would also put at risk the other benefits of tax credits that encourage work, including promoting the long-term wellbeing of children.

Unfortunately, the risks of turning the CTC into a child allowance have been overlooked, in large part due to failures by experts to identify and communicate the risks. My testimony is intended to serve as a corrective to these shortcomings. This includes correcting the record on faulty research that misled policymakers on the expected effects of introducing the CTC changes in 2021, as well as the misuse of studies that analyze the effects of the 2021 CTC changes to extrapolate the effects of extending these changes permanently.

The facts are as follows:

- Permanently replacing the CTC with a child allowance, as was temporarily implemented in the second half of 2021, would substantially weaken the incentive to work.
- Nobody knows exactly how many workers would exit the labor force due to the weakened work incentives, but the highest quality and most relevant research on how employment responds to work incentives suggests that the disemployment effect would be substantial.
- The reduction in employment would mute at least some of the direct child poverty reduction of transferring more government assistance to low-income families.
- Evidence on the employment and child poverty effects from the temporary 2021 CTC changes provides little information about the effects of a permanent extension of those CTC changes. This is because it takes time for people to understand changes in work incentives in the tax code, it can be difficult to seamlessly exit and reenter the workforce in response to sudden changes in work incentives, and the pandemic and related events make it difficult to extrapolate the 2021 experience to less extreme periods.

Given the gravity of the decision to replace the CTC with a child allowance, it is unfortunate that these basic facts have been overlooked, misunderstood, and diminished. The CTC changes being considered would represent the biggest change to the social safety net since welfare reform in the 1990s. But unlike welfare reform which was preceded by a large body of rigorous research and state experimentation, the CTC changes in 2021 were motivated by a flawed National Academy of Sciences report that overlooked the elimination of the CTC's work incentives induced by the policy change, and now, evidence from a temporary six-month version of the policy which has little bearing on the expected effects of a permanent extension of the policy.

In order to make informed decisions, policymakers require accurate, unbiased evidence on the effects of policies. It is the job of technical experts to provide that evidence and contextualize it. Unfortunately, in the case of the CTC, that process has fallen short. I hope that my testimony provides a corrective and allows you to make more informed decisions about how to strengthen support for families and the safety net in a way that better balances the benefits and costs of any policy change.

The Current Child Tax Credit Encourages Work

The CTC was enacted in 1997 and first went into effect in 1998.[1] It provided a non-refundable $500 tax credit to families, for each dependent child under the age of 17.[2] Being non-refundable means that the CTC could only offset federal income tax liability, and so its value could not exceed a family's income tax liability. As a result, families who did not have any federal income tax liability did not receive any Child Tax Credit. Starting in 2001, the CTC was made partially refundable, and so families without a federal income tax liability could obtain some benefit, in the amount of 10 percent of earned income in excess of $10,000. In 2003, the maximum per child CTC amount increased to $1,000. Over the next several years the CTC became more generous for families without federal income tax liability, and by 2009, they could obtain a partially refundable CTC equal to 15 percent of earned income in excess of $3,000.

The next major reform of the CTC occurred in 2017 as part of the Tax Cuts and Jobs Act. The maximum per child CTC was doubled to $2,000, of which up to $1,400 could be claimed as a refundable credit. The refundable credit was set at 15 percent of earned income in excess of $2,500. These are the current parameters of the CTC as of 2023, although they are set to revert to the pre-Tax Cuts and Jobs Act version (including a $1,000 maximum per-child credit) starting in 2026.

The current CTC encourages work. The reason is that the CTC increases with earnings up to its maximum benefit amount. Figure 1 below shows the CTC schedule for a single parent with two dependent children. A parent with less than $2,500 of annual earnings receives no CTC. But then the CTC increases by $0.15 for every dollar of earnings. The CTC peaks at $4,000 (again, for a parent with two dependent children) when annual earnings reach just over $30,000. Thus, a single parent who earns at least $30,000 each year receives a reward of $4,000 as a result of working. Earning $30,000 per year could be achieved by one parent working full-time, year round at an hourly wage of $15. One parent working full-time, year-round at an hourly wage of $10 would earn $20,000 from work, and still receive $2,760 from the CTC.

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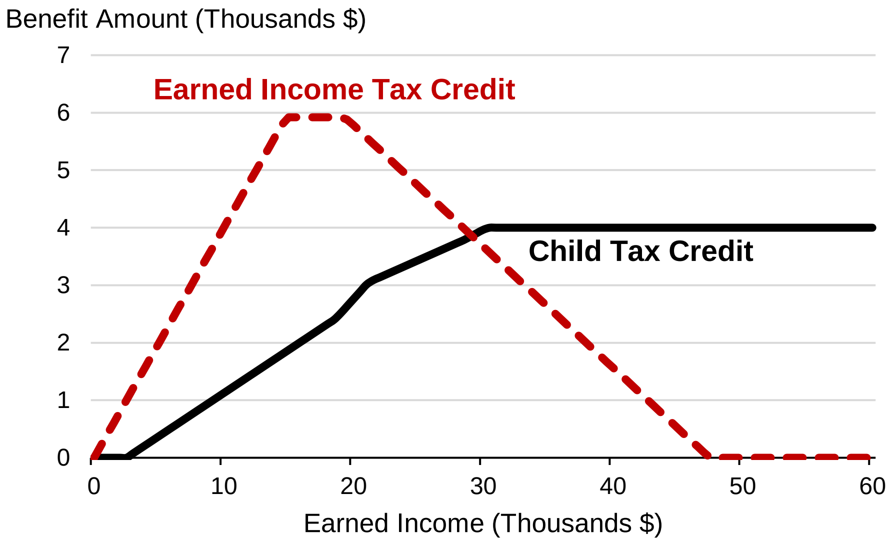
[1] For a legislative history of the Child Tax Credit, see Congressional Research Service, 2021, "The Child Tax Credit: A Legislative History," https://crsreports.congress.gov/product/pdf/R/R45124.

[2] The credit was $400 in 1998 and increased to $500 in 1999.

Figure 1: Child Tax Credit and Earned Income Tax Credit for Single Parent with Two Children under Age 17, by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
Notes: Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) parameters are based on 2020 tax law (all dollar values expressed in 2020 nominal terms). All adjusted gross income is assumed to come from earned income, and the family is assumed to take the standard deduction and claim no other non-refundable tax credits.

These work rewards are substantial, which can be seen by comparing the CTC with the Earned Income Tax Credit (EITC), also shown in Figure 1. The EITC has been widely acknowledged to encourage work among single mothers and its 1990s expansion is credited with contributing to the dramatic rise in single mother employment during that time period.[3] A 2019 National Academy of Sciences panel estimated that increasing the EITC by just 40 percent would lead 0.8 million more single mothers to enter the workforce.[4] Since the CTC provides similar or more benefits to workers than 40 percent of the EITC, we should expect that it induces even more mothers to enter employment. This is consistent with a recent working paper by Kye Lippold estimating that the loss of the CTC when children become too old to qualify leads to a large reduction in parental employment.[5]

[3] For a review of the literature on the employment effects of the EITC, see for example, Austin Nichols and Jessie Rothstein, 2016, "The Earned Income Tax Credit," in *Economics of Means-Tested Transfer Programs in the United States, Volume I*. For more recent evidence, see Diane Whitmore Schanzenbach and Michael R. Strain, 2021, "Employment Effects of the Earned Income Tax Credit: Taking the Long View," *Tax Policy and the Economy*, Volume 35.
[4] National Academies of Sciences, Engineering and Medicine, 2019, "A Roadmap to Reducing Child Poverty." https://nap.nationalacademies.org/catalog/25246/a-roadmap-to-reducing-child-poverty.
[5] Kye Lippold, 2020, "The Effects of the Child Tax Credit on Labor Supply," *SSRN Working Paper*,

For almost all of the entire 25-year existence of the CTC, it has maintained the same basic structure, functioning as a tax credit that provides financial relief and a work reward for working families. The one exception was the second half of 2021, when the CTC was replaced with a child allowance. Although the CTC was still called the CTC during this time and was still administered by the Internal Revenue Service, it no longer was intended to offset tax liability, and it no longer required earnings for families to receive the credit. The maximum amount of the CTC per child was increased to $3,600 for children under 6 years old and $3,000 for children between the ages of 6 and 17 years old, and full cash payments were provided monthly. But the most transformative change was to no longer require either a federal income tax liability or earned income to receive the benefit. A non-working family received the same credit amount as a working family.

Figure 2 compares the current CTC with the child allowance as defined by the American Rescue Plan Act, for an adult with two dependent children (one aged 0 to 5 and the other aged 6 to 16). Because the family receives the same child allowance regardless of their earnings, the child allowance removes the entire CTC work reward. If enacted on a permanent basis, this policy change would be expected to reduce employment.

There has been confusion about terminology when discussing the 2021 changes to the CTC, especially regarding the term "fully refundable." To be fully refundable simply means that the CTC amount provided to a family does not depend having a federal income tax liability to offset. The current CTC is *partially* refundable because only $1,400 of the full $2,000 per child benefit can be claimed without offsetting a family's federal income tax liability. Congress could make the current CTC *fully* refundable if families could instead claim the full $2,000 per-child benefit without a federal income tax liability. But this change could be made while preserving the current earnings requirement, with the CTC phasing in at a 15 percent rate for every dollar earned above $2,500. Such a fully refundable CTC that maintains the earnings requirement would, in effect, differ only slightly from the current CTC, as shown in Figure 3. Since the 2021 CTC further modified the current CTC by eliminating the earnings requirement, I refer to it as a child allowance, rather than a "fully refundable CTC."

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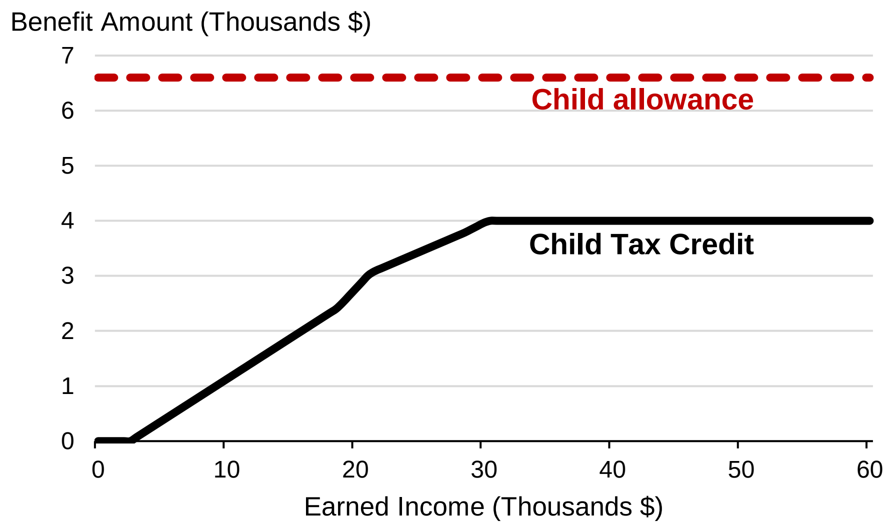
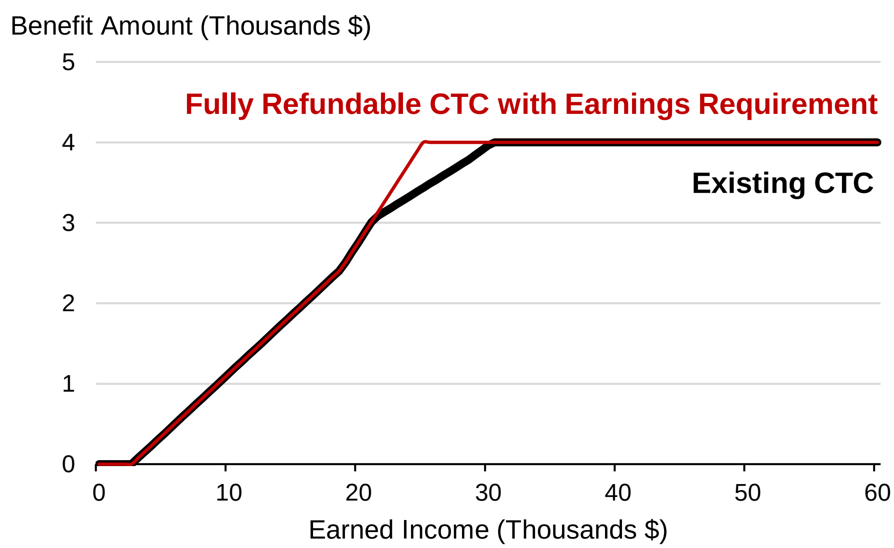
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3543751.

Figure 2: The Child Tax Credit and Child Allowance for a Parent with Two Children (one aged 0 to 5 and the other aged 6-16), by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
Notes: Child Tax Credit (CTC) parameters are based on 2020 tax law (all dollar values expressed in 2020 nominal terms). The child allowance is based on parameters set under the American Rescue Plan Act of 2021. All adjusted gross income is assumed to come from earned income, and the family is assumed to take the standard deduction and claim no other non-refundable tax credits.

Figure 3: The Child Tax Credit and a Fully Refundable Child Tax Credit that Maintains the Earnings Requirement for Single Parent with Two Children under Age 17, by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
Notes: Child Tax Credit (CTC) parameters are based on 2020 tax law (all dollar values expressed in 2020 nominal terms). The fully refundable CTC with earnings requirement sets the Alternative CTC at $2,000 but changes no other parameters of the CTC. All adjusted gross income is assumed to come from earned income, and the family is assumed to take the standard deduction and claim no other non-refundable tax credits.

Evidence motivating the 2021 Child Tax Credit Changes

The intellectual foundation for replacing the CTC with a child allowance in 2021 was provided in large part by a National Academy of Sciences report published in 2019.[6] That report concluded that the replacement of the Child Tax Credit with a child allowance, like the one we had in the second half of 2021, would have negligible effects on employment and reduce child poverty by 41 percent. This National Academy of Sciences report inspired additional simulations of replacing the CTC with a child allowance which assumed no employment effects, and as a result, found similarly large child poverty reductions.[7]

The National Academy of Sciences report was highly influential, and ultimately contributed to Congress implementing the child allowance in the American Rescue Plan Act in March 2021. The report and the simulations it inspired were also cited in efforts during 2021 to extend the child allowance into future years. For example, a September 2021 letter to Congress signed by 462 economists referenced the National Academy of Sciences report in concluding that the policy would "dramatically reduce child poverty" and lead to "minimal work reduction."[8]

Unfortunately, the National Academy of Sciences report contained a fundamental and consequential error. The report failed to recognize that replacing the CTC—which has a work incentive—with a child allowance provided regardless of work effort, would discourage work. In contrast, the same National Academy of Sciences report assumed a strong employment response when modelling the effects of expanding the EITC, a similar tax credit targeted especially to families with children. Specifically, they estimated that increasing the EITC by 40 percent would draw 0.8 million single mothers into employment. Since the full CTC is a larger work incentive

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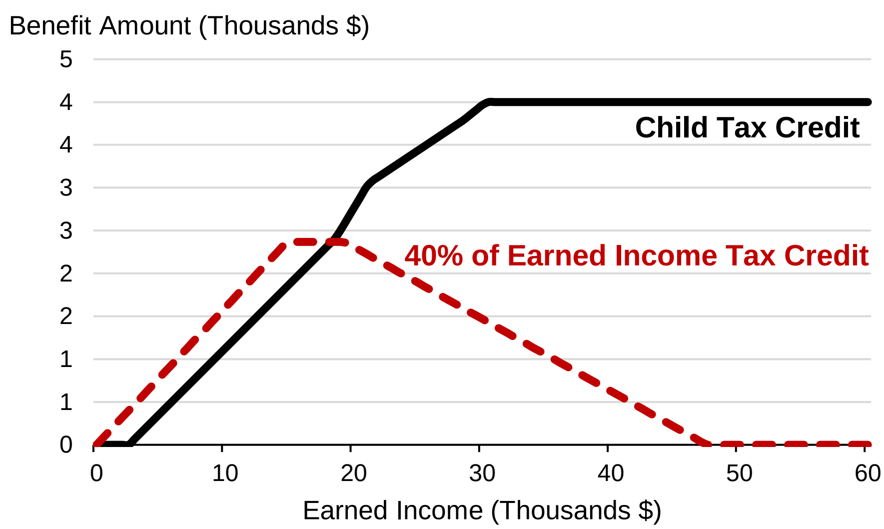
[6] National Academies of Sciences, Engineering and Medicine, 2019, "A Roadmap to Reducing Child Poverty." https://nap.nationalacademies.org/catalog/25246/a-roadmap-to-reducing-child-poverty.

[7] For example, see Gregory Acs and Kevin Werner, 2021, "How a Permanent Expansion of the Child Tax Credit Could Affect Poverty," *Urban Institute*, https://www.urban.org/sites/default/files/publication/104626/how-a-permanent-expansion-of-the-child-tax-credit-could-affect-poverty.pdf; Chuck Marr, Kris Cox, Stephanie Hingtgen, and Katie Windham, 2021, "Congress Should Adopt American Families Plan's Permanent Expansions of Child Tax Credit and EITC, Make Additional Provisions Permanent," *Center on Budget and Policy Priorities*, https://www.cbpp.org/sites/default/files/5-24-21tax.pdf; Sophie Collyer, Megan A. Curran, Robert Paul Hartley, Zachary Parolin, and Christopher Wimer, 2021, "The Potential Poverty Reduction Effect of the American Families Plan," *Center on Poverty and Social Policy at Columbia University*.

[8] Hilary Hoynes, et al., 2021, Final Economist CTC Letter, https://static1.squarespace.com/static/5ecd75a3c406d1318b20454d/t/6148f183c62fb147d0d25138/1632170373799/Economist+CTC+Letter+9-14-21+430pm.pdf.

than 40 percent of the EITC (as seen in Figure 4 below), this implies that the employment effect of the CTC is even larger. My coauthors and I calculated that if the National Academy of Sciences had applied the same work responsiveness assumption used for its EITC simulation to the incentive change caused by replacing the CTC with a child allowance, they would have found at that at least 1.3 million parents would have exited employment as a result, before accounting for any employment response by married parents to the weakened work incentives.[9]

Figure 4: The Child Tax Credit and 40 Percent of the Earned Income Tax Credit for a Parent with Two Children Under Age 17, by Earned Income



Source: Internal Revenue Service, Congressional Research Service, Author's calculations
Notes: Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) parameters are based on 2020 tax law (all dollar values expressed in 2020 nominal terms). All adjusted gross income is assumed to come from earned income, and the family is assumed to take the standard deduction and claim no other non-refundable tax credits.

My coauthors and I conducted our own research simulating the employment and poverty effects of permanently replacing the CTC with a child allowance.[10] Unlike the National Academy of Sciences report and follow-on studies, we recognized and modelled the change in work incentives. In addition, we used a more accurate dataset that links household survey data with administrative program and tax data, what is known as the Comprehensive Income Dataset. This dataset corrects for misreporting of income in surveys and allows for a more accurate simulation

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[9] Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance," *NBER Working Paper*, https://www.nber.org/system/files/working_papers/w29366/w29366.pdf.
[10] Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance," *NBER Working Paper*, https://www.nber.org/system/files/working_papers/w29366/w29366.pdf.

of changes to the CTC. We estimated that 1.5 million parents would exit employment as a result of permanently extending the child allowance. Accounting for the employment effect would reduce the child poverty effect by over a third, from 34 percent to 22 percent.

Unfortunately, the National Academy of Sciences has not yet been willing to correct the public record about their error, misleading policymakers about the true consequences of their policy choices.[11]

While the parental employment and child poverty effects have received the most attention in the policy debate over whether to replace the CTC with a child allowance, there are other important consequences that policymakers should consider. These include long-run effects on child wellbeing, effects on single parenthood, and fiscal consequences.

Regarding long-run child wellbeing, an extensive literature finds that tax credits that encourage work improve child outcomes.[12] Specifically, the EITC, which as noted earlier is structured similarly to the CTC, has been found to improve children's test scores, and upon adulthood increase their earnings and reduce dependency on government programs.[13] Government programs that provide aid to low-income families without encouraging work appear to be a less robust mechanism for improving long-run child outcomes.[14] For example, housing assistance has been found to have weaker positive impacts than the EITC.[15] The evidence in support of non-work conditioned government assistance improving child outcomes is more frequently drawn from an earlier era in which the rest of the safety net was much less extensive than today, such as evidence that the rollout of Food Stamps in the 1960s and 1970s improved children's long-run

[11] See Kevin Corinth and Bruce Meyer, 2021, Letter to National Academies of Sciences, Engineering, and Medicine, https://bpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/a/3122/files/2021/10/NAS-Roadmap-Letter_10_27_2021.pdf.

[12] For a literature review, see Hilary Hoynes and Diane Whitmore Schanzenbach, 2018, "Safety Net Investments in Children," *Brookings Papers on Economic Activity*, https://www.brookings.edu/wp-content/uploads/2018/03/HoynesSchanzenbach_Text.pdf.

[13] For example, see Jacob Bastian and Katherine Michelmore, 2018, "The Long-Term Impact of the Earned Income Tax Credit on Children's Education and Employment Outcomes," *Journal of Labor Economics* 36(4): 1127-1163. https://www.journals.uchicago.edu/doi/abs/10.1086/697477?journalCode=jole.

[14] See Council of Economic Advisers, 2018, "Expanding Work Requirements in Non-Cash Welfare Programs," https://trumpwhitehouse.archives.gov/wp-content/uploads/2018/07/Expanding-Work-Requirements-in-Non-Cash-Welfare-Programs.pdf; Austin Nichols and Jessie Rothstein, 2016, "The Earned Income Tax Credit," in *Economics of Means-Tested Transfer Programs in the United States, Volume I*.

[15] Brian A. Jacob, Max Kapustin, and Jens Ludwig, 2015, "The Impact of Housing Assistance on Child Outcomes: Evidence from a Randomized Housing Lottery," *Quarterly Journal of Economics* 130(1): pp. 465-506, https://academic.oup.com/qje/article-abstract/130/1/465/2337692?redirectedFrom=fulltext.

outcomes.[16] Thus, replacing the work-encouraging CTC with a child allowance that does not encourage work could weaken the positive effects of the safety net in improving long-run child outcomes.

Another potential consequence of replacing the CTC with a child allowance is an increase in single parenthood. As pointed out in recent testimony by Bruce Meyer for a Senate Finance Committee hearing, the growing rate of single parenthood flattened out in the aftermath of welfare reform.[17] While this evidence is not causal, it is plausible that welfare reform, which rewarded work through an expanded EITC and required work in return for receipt of cash welfare, played a role in this change in trend. Since replacing the CTC with a child allowance would weaken the incentive to work for low income families and greatly increase assistance for families with no earnings, it can be thought of as partly reversing welfare reform, which could increase single parenthood as a result. In fact, for a non-working single parent with two children, there are 32 states (and the District of Columbia) in which the combined value of the child allowance and Supplemental Nutrition Assistance Program (SNAP) benefits in 2023 would exceed the combined value of Aid to Families with Dependent Children (AFDC) and SNAP benefits in 1996, immediately prior to welfare reform (see Figure 5). Since this calculation omits benefits from Temporary Assistance for Needy Families (TANF) in 2023, it understates the extent to which cash and near-cash benefits under a child allowance for non-working families in 2023 would exceed what was available in 1996 prior to welfare reform.

Finally, replacing the CTC with a child allowance would increase government spending by over $100 billion annually.[18] This will eventually require increasing taxes which would lead to further reductions in employment and restrict economic growth, or cutting other government spending. These costs should be considered alongside the benefits of short-run increases in resources directed to families with children.

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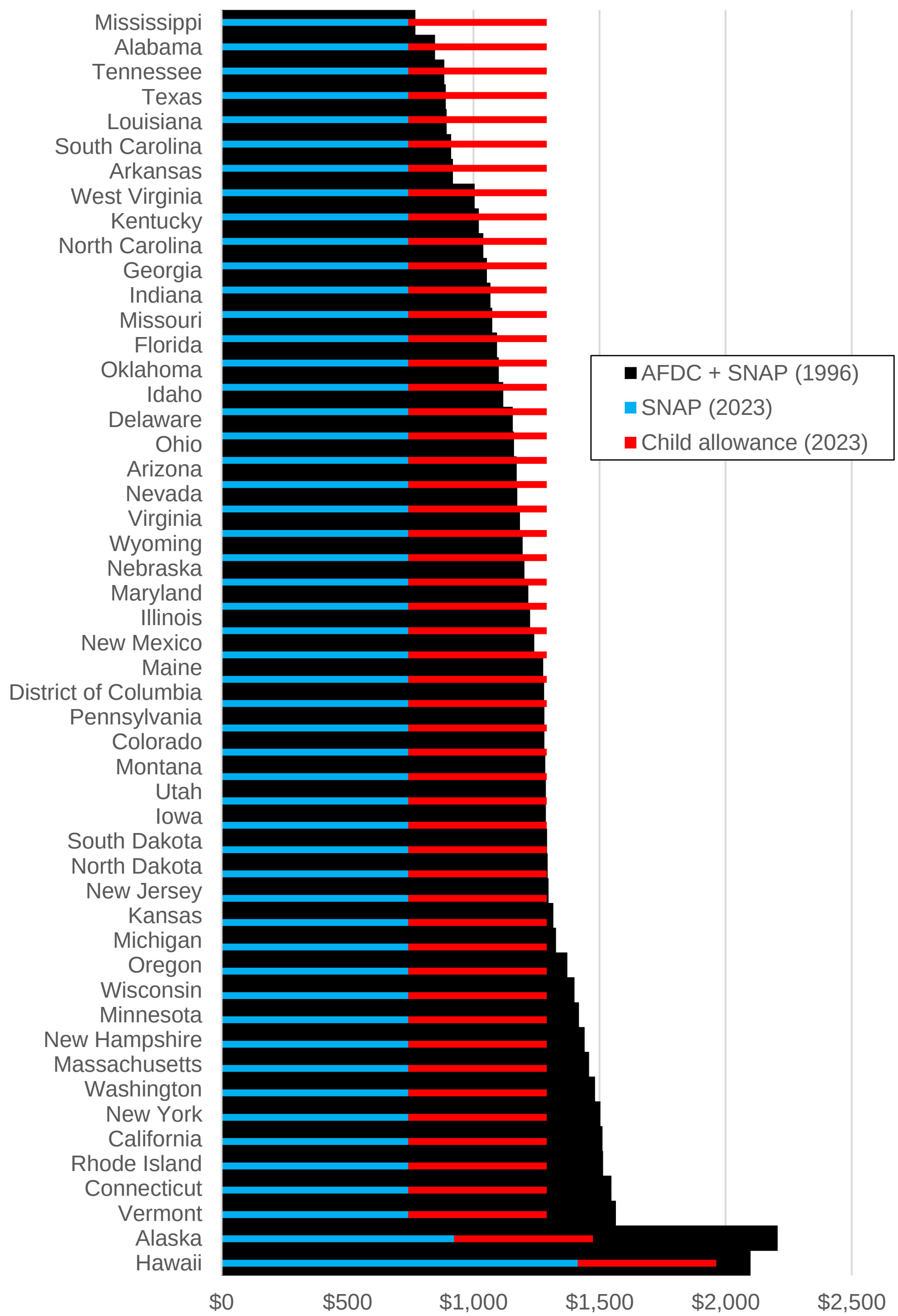
[16] Hilary Hoynes, Diane Whitmore Schanzenbach, and Douglas Almond, 2016, "Long-Run Impacts of Childhood Access to the Safety Net," *American Economic Review* 106(4): pp. 903-934, https://www.aeaweb.org/articles?id=10.1257/aer.20130375.

[17] See written testimony of Bruce D. Meyer for United States Senate Finance Committee Hearing on "Anti-Poverty and Family Support Provisions in the Tax Code," June 14, 2023, https://www.aei.org/wp-content/uploads/2023/06/Bruce-Meyer-Testimony-Senate-Finance-6-14-2023.pdf?x91208.

[18] Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance," *NBER Working Paper*, https://www.nber.org/system/files/working_papers/w29366/w29366.pdf.

Figure 5: Combined Monthly Value of AFDC and SNAP in 1996 vs. Combined Value of Child Allowance and SNAP in 2023, Single Parent with Two Children and No Earnings



Source: Green Book 1996, U.S. Department of Agriculture, Author's calculations (with Bruce Meyer)
Notes: One child assumed to be under age 6 and other aged 6-17. Child allowance is that specified by the American Rescue Plan Act of 2021. All dollar amounts converted to 2023 using the Personal Consumption Expenditures Price Index.

Evidence based on the 2021 Child Tax Credit Changes

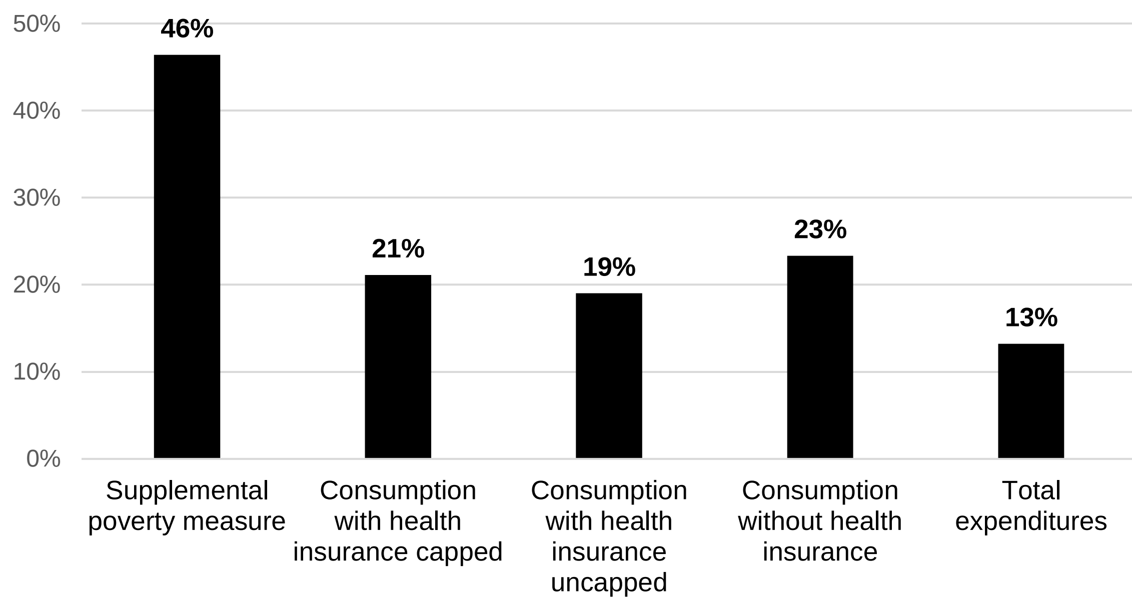
A year and a half removed from the temporary replacement of the CTC with a child allowance, official data have been released allowing us to determine how poverty changed during the second half of 2021 when the policy change was in effect. In addition, a growing number of studies have attempted to parse out the extent to which the CTC policy change *caused* changes in child poverty, parental employment, and other outcomes. However, the data and methodological approaches suffer from limitations, and more broadly, the evidence from the temporary six-month change to the CTC does not provide a useful guide to the effects of making a child allowance permanent.

One frequently reported upon set of data is child poverty trends. While the official poverty rate for children fell by just 0.7 percentage points (4 percent) from 2020 to 2021, the official poverty measure excludes the child allowance payments as income. The Census Bureau's supplemental poverty measure attempts to address this shortcoming by including child allowance payments as income, but because Census does not ask parents about the amount of child allowance payments parents received, Census must impute them. The Census imputation assumes full take-up of the child allowance payments among families that Census calculates should be eligible based on other self-reported information. Census also allocates both the monthly child allowance payments made in July through December of 2021 to families' 2021 income, as well as the other half of the child allowance that was paid out when families filed their taxes for the 2021 tax year around April 2022. According to the supplemental poverty measure, child poverty fell by 46 percent in 2021 compared to 2020. Other non-government income-based poverty measures find conflicting child poverty trends during the pandemic: Child poverty based on income reported by recipients over the past 12 months did not substantially fall in the second half of 2021, while monthly child poverty rates based on imputed incomes and imputed child allowance payments fell substantially.[19]

[19] See Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, 2022, "Real-Time Poverty, Material Well-Being, and the Child Tax Credit," *National Tax Journal* 75(4), https://www.journals.uchicago.edu/doi/abs/10.1086/722137; and Zachary Parolin, Megan Curran, Jordan Matsudaira, Jane Waldfogel, and Christopher Wimer, 2022, "Estimating Monthly Poverty Rates in the United States," *Journal of Policy Analysis and Management* 41(4): pp. 1177-1203, https://onlinelibrary.wiley.com/doi/10.1002/pam.22403.

A better measure of poverty, especially when large income sources must otherwise be imputed as in the case of the child allowance, is one that relies on expenditures or consumption. Measuring poverty on the basis of consumption does not require imputation of the child allowance, while still capturing the benefit to the extent that families use the additional resources to consume more. The Bureau of Labor Statistics recently calculated poverty rates based on expenditures and consumption, finding that child poverty fell by between 13 percent and 23 percent, respectively, from 2020 to 2021 (see Figure 6).[20]

Figure 6: Percent Decrease in Child Poverty, 2020-2021, Various Poverty Measures



Source: United States Census Bureau, United States Bureau of Labor Statistics, Author's calculations
Notes: Each bar represents the percent decrease in child (under age 18) poverty between 2020 and 2021. The Supplemental Poverty Measure is an income-based measure that relies on "quasi-relative" poverty thresholds. It imputes monthly CTC payments made in the second half of 2021 and the remaining portion of the 2021 CTC paid out in 2022 as income in 2021. The consumption and expenditure poverty measures rely on an absolute standard that holds the poverty threshold constant in real terms in 2020 and 2021.

Even these changes could overstate the child poverty decline during the second half of 2021. Bruce Meyer, in recent testimony before the Senate Finance Committee reporting quarterly child consumption poverty, found only small declines in the third and fourth quarters of 2021, relative to the first two quarters of 2021. While it may be the case that child poverty fell by a meaningful

[20] Thesia I. Garner, Brett Matsumoto, Jake Schild, Scott Curtin, and Adam Safir, 2023, "Developing a Consumption Measure, with Examples of Use for Poverty and Inequality Analysis: A New Research Product from BLS," *Monthly Labor Review*, https://www.bls.gov/opub/mlr/2023/article/developing-a-consumption-measure-with-examples-of-use-for-poverty-and-inequality-analysis-a-new-research-product-from-bls.htm.

amount in 2021 in conjunction with the child allowance payments, it is important to recognize that (i) some of the most widely cited estimates are likely overstated due to imputation assumptions and the allocation of benefits paid out in 2022 to poverty in 2021, and (ii) there remains uncertainty about the magnitude of child poverty experienced.

A growing number of studies move beyond trends in child poverty in an attempt to estimate the causal effect of the replacement of the CTC with a child allowance on various outcomes in the second half of 2021. These studies typically compare changes in outcomes experienced by families who were eligible for the child allowance to changes in outcomes experienced by families who were eligible for a smaller child allowance or no child allowance at all. These studies conclude that if those families who received the child allowance saw a greater improvement in outcomes than those families who did not receive the child allowance, then the incremental improvement in outcomes can be attributed to the policy change.

A problem for the design of these studies is that other events occurred around the same time that child allowance payments were being distributed, making it difficult to disentangle effects of the child allowance payments from effects of these other events. In March 2021, the American Rescue Plan Act expanded the Child and Dependent Care Tax Credit—increasing the generosity of the credit and making more families eligible—and distributed another round of Economic Impact Payments (i.e., stimulus checks), including $1,400 per dependent child. These policy changes were part of the same legislation that replaced the CTC with a child allowance in 2021, and they likely affected families who received a higher child allowance (due to having more children and younger children) more than families who received a lower or no child allowance. For example, a family with more children would have received a larger Economic Impact Payment, and a family with younger children would have been more likely to benefit from the expansion of the Child and Dependent Care Tax Credit. Since these are the same families who received higher child allowance payments, it is difficult to determine whether improved outcomes for these families were due to the child allowance payments or the other policy changes.

Other events further confound studies that focus on differences between families who received the child allowance and families who received a lower or no child allowance. For example, COVID-19 vaccines were first made available to children aged 12 through 15 in May 2021, and to children aged 5 through 11 in October 2021.[21] Schools opened in August and September 2021, after many had been closed or offered only in hybrid format the preceding Spring. Each of these events likely mattered more for families with children than families without children, conflating studies that rely on variation in who received the child allowance to identify its effects. The events also likely mattered more for families with older children than families with younger children, conflating studies that rely on variation in child allowance amounts to identify its effects.

Despite these methodological limitations, a growing number of studies have nonetheless proceeded to estimate effects of the CTC policy change on a range of outcomes including families' consumption, material hardship, mental health, and employment.[22] Many but not all find that that the child allowance in 2021 increased the well-being of families who appear to have been eligible for the child allowance payments.[23]

Results on employment effects are not conclusive. One study finds modest employment declines among adults with a high school degree or less who have children, compared to similarly educated adults without children.[24] While meaningful, the employment effects are only about a third as large as would be predicted in the long run based on a permanent extension of the child allowance. Other studies do not find employment effects, although they generally test for effects starting when monthly child allowance payments were made in July 2021 as opposed to when

[21] U.S. Department of Health and Human Services, "COVID-19 Vaccines," https://www.hhs.gov/coronavirus/covid-19-vaccines/index.html, accessed July 10, 2023.

[22] For effects on consumption, see for example, Jake Schild, Sophie M. Collyer, Thesia Garner, Neeraj Kaushal, Jiwan Lee, Jane Waldfogel, and Christopher T. Wimer, 2023, "Effects of the Expanded Child Tax Credit on Household Spending: Estimates Based on U.S. Consumer Expenditure Survey Data," NBER Working Paper, https://www.nber.org/papers/w31412. For effects on material hardship, see for example, Sophie Collyer, Jill Gandhi, Irwin Garfinkel, Schuyler Ross, Jane Waldfogel, and Christopher Wimer, 2022, "The Effects of the 2021 Monthly Child Tax Credit on Child and Family Well-Being: Evidence from New York City, Socius, 8, https://journals.sagepub.com/doi/10.1177/23780231221141165. For effects on employment, see for example, Brandon Enriquez, Damon Jones, and Ernie Tedeschi, 2023, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit," *AEA Papers and Proceedings* 113: pp. 410-405, https://www.aeaweb.org/articles?id=10.1257/pandp.20231087.

[23] For example, no evidence of improved mental health was found in Benjamin Glasner, Oscar Jimenez-Solomon, Sophie M. Collyer, Irwin Garfinkel, and Christopher T. Wimer, 2022, "No Evidence the Child Tax Credit Expansion Had an Effect on the Well-Being and Mental Health of Parents," Health Affairs 41(111), https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2022.00730.

[24] See Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, 2022, "Real-Time Poverty, Material Well-Being, and the Child Tax Credit," *National Tax Journal* 75(4), https://www.journals.uchicago.edu/doi/abs/10.1086/722137.

work incentive changes were announced and took effect starting in March 2021.[25]

Even as there remains debate about the short-run effects of the 2021 CTC change, along with serious questions about the methodological approaches used, the most concerning issue is that some have used the results of these studies which measure the effect of a temporary policy change, to infer what would happen if those changes were made permanent. For example, one study states: "Evidence that even the temporary wage cut in the 2021 CTC expansion did not reduce parent employment thus strongly suggests that a permanent expansion would not meaningfully reduce parent employment."[26] In fact, these studies do not provide a useful guide to the effects of making the 2021 CTC changes permanent. This is certainly the case for employment. But it is also true for all other outcomes because reductions in employment would offset reductions in poverty and potentially other hardship measures.

There are four main reasons that evidence from the temporary 2021 CTC changes should not be used to extrapolate the long-term effects of a permanent policy change.

First, it is unlikely that most parents actually understood how work incentives changed in 2021. As late as September 2021, 462 economists wrote a letter to Congress in which they failed to recognize the work incentive effects of the 2021 CTC changes. If hundreds of economists failed to recognize the work incentive changes even as they were advocating a permanent extension of the policy, it seems unrealistic to think that a majority of parents still dealing with the effects of pandemic-related shutdowns would have understood them even more quickly.

Second, even if they understood the work incentive changes, parents are less likely to quit their jobs in response to an unexpected and temporary six-month policy change. In real world labor markets, the typical worker cannot suddenly quit their job and then automatically get their job

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[25] See Brandon Enriquez, Damon Jones, and Ernie Tedeschi, 2023, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit," *AEA Papers and Proceedings* 113: pp. 410-405, https://www.aeaweb.org/articles?id=10.1257/pandp.20231087; and Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin, 2022, "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real World Data from April to December 2021," NBER Working Paper, https://www.nber.org/papers/w29823. The most recent version of the latter study includes a robustness check using the timing of the work incentive change in March 2021.

[26] Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin, 2022, "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real World Data from April to December 2021," NBER Working Paper, https://www.nber.org/papers/w29823.

back six months later when the work incentives are restored.

Third, the work incentive of the CTC is strongest earlier in the year, but the American Rescue Plan Act was not passed until March 2021, and many parents were likely unaware that the CTC was replaced until July 2021 or later. The delay in implementing the policy until later in the year muted the change in work incentives relative to a policy that was announced and understood at the beginning of the year. For example, a parent working full-time, year-round with an annual salary of $60,000 would have already earned $30,000 by the start of July 2021, qualifying her family for the full CTC under 2020 law, and thus providing her with no additional incentive (above and beyond her wages net of taxes and transfers) to continue working the remainder of the year. Even if she understood the work incentive changes induced by the switch to a child allowance as soon as July 2021, she would face no change in work incentives as a result. Only those individuals who had not yet worked prior to learning about the work incentive change would be fully affected by the weakening of work incentives in the switch to a child allowance.

Fourth, even if parents understood the incentive change more quickly than 462 economists, and even if they had jobs they could seamlessly move into and out of, and even if they still faced the full strength of the work incentive change by not working in early 2021 before learning about the policy, the 2021 experience would still provide little help in understanding the consequences of a permanent extension of this policy. The reason is that a lot was going on in 2021 that made it unique. We were facing a pandemic. We had undergone multiple rounds of economic stimulus payments and boosted unemployment benefit payments. Supplemental Nutrition Assistance Program benefits and child care assistance were substantially expanded in 2021. Many schools were just beginning to open up again. How parents respond to work incentive changes in the midst of a pandemic and in the midst of other unprecedented government aid is likely to differ from how they would respond in less extreme times.[27]

[27] As stated by Michael Karpman, Elaine Maag, Stephen Zuckerman, and Doug Wissoker, 2022, "Child Tax Credit Recipients Experienced a Larger Decline in Food Insecurity and a Similar Change in Employment as Nonrecipients Between 2020 and 2021," *Tax Policy Center*, https://www.urban.org/research/publication/child-tax-credit-recipients-experienced-larger-decline-food-insecurity-and: "It will also be important to confirm these findings if the CTC is expanded during periods of less economic volatility. The study period occurred during the COVID-19 pandemic and coincided with a rapid labor market recovery in 2021 that followed a sharp recession in 2020, child care and school closures that presented ongoing barriers to work for many parents, high levels of job turnover, two rounds of stimulus payments in the first half of 2021, and rising inflation throughout 2021" (p. 2).

It is important to emphasize these issues, because some have extrapolated from the experience with the 2021 CTC to what would happen if those changes were made permanent. They have claimed that we now have evidence that permanently extending the 2021 CTC changes would have little effect on employment and thus dramatically reduce child poverty. They are wrong.

Conclusion

Ultimately, the decision over whether to replace the CTC with a child allowance should be informed by an accurate understanding of the costs and benefits. Unfortunately, the costs have been overlooked, misunderstood and minimized, and the benefits have been oversold. I hope my testimony can provide a corrective so that in the future you can make better informed policy decisions.