

## A Note on Ananat, Glasner, Hamilton and Parolin’s, “Effects of the Expanded Child Tax Credit on Employment Outcomes”

October 2021

By Kevin Corinth and Bruce D. Meyer

Ananat et al. (2021) study the employment effects of the temporary expansion of the Child Tax Credit (CTC) under the American Rescue Plan Act. Using data from the Census Bureau’s Monthly Current Population Survey and Household Pulse Survey, they compare employment outcomes of adults with children with those of adults without children, and for different groups they claim would be affected more strongly by changing work incentives. They conclude that their small and statistically insignificant results “are not consistent with claims that the expanded CTC has negative employment effects that meaningfully offset its observed reductions in poverty and hardship.” Furthermore, the authors suggest that their results provide evidence contrary to simulations in Corinth et al. (2021) that a permanent expansion of the CTC would lead 1.5 million working parents to exit employment. These claims in Ananat et al. (2021) are not supported by their evidence, as the flaws in the study are such that nothing of substance can be learned from their estimates. These flaws include incorrectly characterizing the timing and magnitude of the changes in work incentives, assuming instantaneous response when the literature suggests long lags, wide confidence intervals that include substantial effects, and a failure to control for other changing factors. The problems with the study are described in more detail below.

**The framing of employment effects is contrary to textbook economics.** Almost all introductory and intermediate economic textbooks identify two effects of tax and transfer policies—the income effect and the substitution effect—both of which imply that the changes to the CTC under the American Rescue Plan Act would reduce work effort. The income effect says that the additional income allows people to enjoy more of everything including leisure and thus that they will work less. The substitution effect implies that the reduced boost to income from working with the elimination of the Tax Cuts and Jobs Act CTC discourages work. The non-standard notion proposed that increased income would lead to more work does not have empirical support, in contrast to the literally thousands of studies supporting the textbook view.

**The study has the timing of the policy change wrong.** Their use of treatment and comparison time periods (in what is called a difference in differences approach) assumes that the incentives to work sharply changed starting in July 2021, when CTC benefits were first distributed. However, the American Rescue Plan Act was signed into law on March 11, 2021. Since the Tax Cuts and Jobs Act CTC rewarded earnings accrued anytime throughout the year, the change in incentives began in March and did not change in July. Furthermore, as discussed below, any

response to this temporary change would likely have been small and slow implying there would be little to detect in July even if the long-run effects are substantial.

**The assumption of a rapid response is contrary to the literature which finds a full response over years not months.** The literature on tax credit changes for low-income families finds that the employment responses take place over a period of years. Eissa and Liebman (1996) and Meyer and Rosenbaum (2001) suggest that responses to changes in the EITC take one or two years, while Chetty, Friedman, and Saez (2013) suggest an even slower response as knowledge of detailed features of the credit are learned. Thus, small effects should be expected after a few months.

**The measure of treatment and timing is designed to examine the income effect which is small.** The measure of treatment in the study captures the additional income received due to the CTC expansion, not the elimination in the boost to income that one obtains by working under the Tax Cuts and Jobs Act CTC. The timing is based on when one receives cash (the income effect) not when incentives to work change. The papers discussing the income effect all say the effect on employment will be small. The confidence intervals for the estimates include declines in employment several times as large as what has been predicted on the basis of the income effect alone (National Academy of Sciences 2019; Corinth et al. 2021).

**The study incorrectly measures the treatment intensity.** They create a continuous treatment variable equal to the CTC benefit under the American Rescue Plan Act minus the CTC benefit under the Tax Cuts and Jobs Act. However, the change in the return to work for most families is simply the Tax Cuts and Jobs Act CTC itself, not this difference in benefit levels.

**Parental decisions to participate in work in 2021 had been made by many individuals before the policy was implemented.** The CTC under the Tax Cuts and Jobs Act encouraged people to work at least some during the year. Its elimination would not change incentives to work for those who had already earned enough in the first half of the year to obtain the maximum credit.

**The study falsely asserts that labor force exit should be greatest among families with the lowest earnings.** In fact, Figure 3 in our paper shows that the percent decrease in the return to work is highest for workers with tax unit earnings between \$10,000 and \$50,000, with little variation between these groups.

**The CTC expansion under the American Rescue Plan Act is temporary.** The labor supply effects of a one-year expansion of the CTC are likely much smaller than the effects of a permanent expansion of the CTC.

**Many other factors aside from the CTC expansion have changed during their study period.** The study requires families with and without children to be affected the same by all other factors in the economy. Studies using this methodology typically establish that the treatment and comparison groups have changed in a similar fashion in the past, something this study fails to do. Such factors as changes in child care accessibility, school closures, and school openings would be expected to affect their treatment and control groups differently throughout their study period.

## References

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