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Assessing the Potential Employment and Poverty-Reduction Effects of an Expanded Child Tax Credit

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AUTHORS

Emily Wielk
Research Analyst

Andrew Lautz
Senior Policy Analyst

Rachel Snyderman
Director of Economic Policy

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Introduction

Government transfer programs delivered through the tax code, including the Child Tax Credit (CTC), offer important benefits to American families. Although recent temporary expansions—such as those passed under the Tax Cuts and Jobs Act of 2017 (TCJA) and the American Rescue Plan Act of 2021 (ARP)—enhanced the CTC's amount, they have created uncertainty about the credit's future, as expirations at the end of 2025 conflict with aspirations for a more generous permanent credit. Moreover, policymakers continue to debate how to best enhance or extend the CTC, which has historically garnered strong bipartisan support, while mitigating unintended negative effects on labor force participation.

The immediate benefits of a CTC expansion include reducing child poverty and boosting disposable income for many low-to-moderate-income households with children. Indeed, the ARP's short-term CTC reform temporarily lifted 2.9 million children out of poverty, contributing significantly to the 46% reduction in the child poverty rate in 2021 during the COVID-19 pandemic.[i] While many policy experts pointed to this success as reason to permanently expand the CTC, others cautioned that the short time frame and temporary nature of the policy made it difficult to accurately assess the long-term impact on employment—parents changing their workforce behavior in response to an expanded CTC. An important trade-off thus emerges: Enhancing the credit reduces child poverty but might also alter work incentives in a way that causes parents to reduce their hours worked or to exit the workforce over time if the expansion were to become permanent.

This trade-off underscores one of the key questions in the ongoing reform deliberations: *To what degree would an expanded CTC affect workforce participation?* The following brief examines the latest research on anti-poverty and employment effects and offers a nuanced, objective look at the evidence in an effort to catalyze productive, bipartisan discussions on how to durably reform the CTC.

The Child Tax Credit

The TCJA, signed into law by President Donald Trump in December 2017, temporarily expanded the CTC for all eligible families, while the ARP, signed into law by President Biden in March 2021, built upon the changes in the TCJA to temporarily make the credit more generous for all families except those with higher incomes. **Table 1** shows the two most recent temporary changes to the CTC and compares them to permanent law, while **Figure 1** illustrates how much a typical household with one child would receive under each law.

Table 1: The CTC's Permanent Law and Temporary Expansions

	Permanent Law	Tax Cuts and Jobs Act	American Rescue Plan Act
Expiration	-	**End of 2025**	**End of 2021**
Maximum credit	$1,000 per child	$2,000 per child	$3,000 per child; $3,600 per child ages 5 or younger
Phase-in rate and threshold	15% of earnings over $3,000	15% of earnings over $2,500	No minimum earnings requirement to receive full credit
Refundability	If credit exceeds tax liability, difference is issued as a refund	Same as permanent law, with refunds capped at $1,600 per child for 2023 (and indexed to inflation)	If credit exceeds tax liability, difference is issued as a refund, with half distributed in monthly payments throughout the year and the rest claimed during tax season
Phaseout rate and threshold[a]	5% starting at income of $75,000 (single or head of household) or $110,000 (married, filing jointly)	5% starting at income of $200,000 (single or head of household) or $400,000 (married, filing jointly)	$3,000/$3,600 credit phases down to $2,000 at a rate of 5% starting at income of $75,000 (single), $112,500 (head of household), or $150,000 (married, filing jointly); then TCJA schedule
Maximum age of qualifying children	16	16	17
Total annual cost (approximate)[b]	$55 billion	$120 billion	$225 billion

a.   For a married couple filing jointly with two children under age 17 (permanent law, TCJA) or between ages 6 and 17 (ARP), the CTC is fully phased out at the following income limits: Permanent law – $150,000; TCJA – $480,000; ARP – $480,000.
b.   Cost estimates come from the Joint Committee on Taxation for the most recent year in which relevant law applied: Permanent law cost is from 2017, TCJA cost is from 2022, and ARP cost is from 2021.

Figure 1: The CTC's Schedule for a Single Parent of One Child, Under Permanent Law and Temporary Expansions
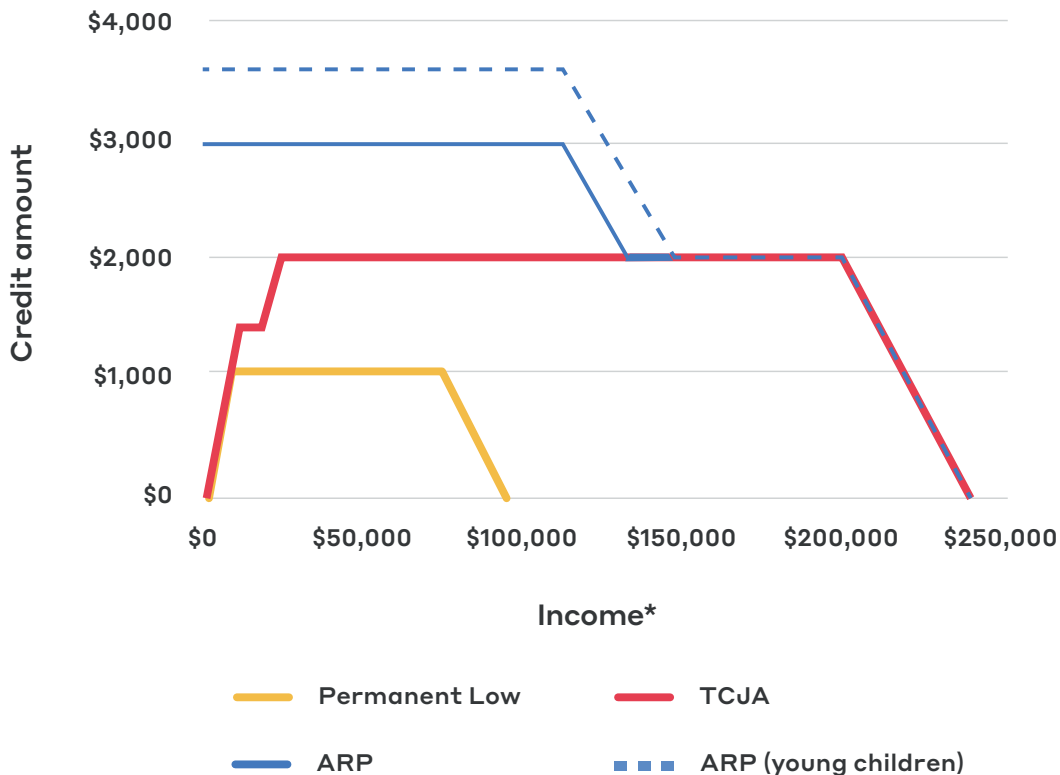
*The CTC phases in with earnings but phases out with modified adjusted gross income.

Note: TCJA is the Tax Cuts and Jobs Act of 2017. ARP is the American Rescue Plan Act of 2021. Graph assumes single parent takes the head-of-household deduction and no other tax benefits before applying the CTC. The TCJA schedule shows what would have applied in 2021 had the ARP not been enacted.

Both temporary expansions under the TCJA and the ARP increased access to and the financial impact of the credit. Under the TCJA, the maximum credit amount doubled from $1,000 to $2,000, with refundability rising to $1,600 (in 2023) and indexed to inflation. Additionally, the TCJA slightly lowered the earned income phase-in threshold and raised the phaseout threshold, providing eligibility to more families. Under the ARP, the maximum credit amount increased from $2,000 to $3,000 for children 6 to 17 years old and to $3,600 for children aged five and younger, with the entire amount fully refundable. It also allowed families with little or no earnings to claim the CTC for the first time by eliminating the credit's earned income phase-in. The changes under the ARP made households covering approximately 65 million children (88% of U.S. children) eligible to receive the credit, with nearly 19 million newly eligible.[ii,iii] For the first time, families also had the option to advance a portion of the credit in monthly payments rather than a one-time lump sum payment during tax season.[iv]

Understanding the Labor Market Interactions of Changes in Tax Policy

The United States implements major elements of social policy through the tax code. The CTC is one of the largest and most significant tax credits, which makes it all the more important for experts and policymakers to consider how changes to the existing CTC and proposed reforms will ultimately affect taxpayer behavior.

Tax credits that boost workforce participation among low- and moderate-income workers—such as the Earned Income Tax Credit—can provide powerful benefits to households beyond the value of the credit itself. The additional income generated through work enables these households to build a more secure economic foundation for their children.[v] Although government transfer programs delivered as tax credits can reduce poverty, expanding credits like the CTC will also factor into parents' decisions on workforce participation. Specifically, the trade-offs of an enhanced CTC might influence their decisions about whether to participate in the labor force and how many hours to work.

Tax policy affects labor supply in two primary ways: through the "income effect" and the "substitution effect."

- The *income effect* suggests that people tend to work less as their after-tax income rises because fewer hours are needed to maintain their same standard of living. For example, a larger CTC increases the after-tax income of households. All else equal, the income effect would tend to reduce hours worked.

- The *substitution effect* suggests that when after-tax returns to work increase, people will work more as work becomes relatively more attractive than leisure. For example, taxpayers in the phaseout range of the CTC face an increased effective marginal tax rate and reduced after-tax marginal wage rate. All else equal, for this population, the substitution effect would tend to reduce hours worked.

Meanwhile, an individual's decision to participate in the labor force can be measured in two ways:

- By the *intensive margin*—the degree to which an individual works, given that they are in the labor force. For example, an increase in hours worked from 20 hours per week to 25 hours per week is a change at the intensive margin.

- By the *extensive margin*—whether an individual enters or exits the labor force. An individual choosing to leave their job and care for their child is a change at the extensive margin.

Depending on the policy design, income and substitution effects can either work in the same or in opposite directions. When these effects push in opposite directions, the net result is unclear: For example, if Congress was to cut taxes, an individual benefiting from the tax cut could earn the same money working fewer hours (negative income effect), yet also see an added benefit from each additional hour worked (positive substitution effect).[vi]

When the ARP last modified the CTC, income and substitution effects worked in the same (negative) direction. In this case, increasing the credit amount raised after-tax household income, which reduced the incentive to work (income effect), while changes to the phase-in and phaseout of the credit reduced the after-tax returns to work and reduced the incentive to work (substitution effect). Economists disagree about both the overall and relative magnitude of income and substitution effects resulting from a CTC expansion, but the academic literature generally suggests that income effects are small while substitution effects induce an economically significant impact on workforce participation.[vii]

The key factor in estimating the real-world size of the labor market response is the *elasticity of labor supply*. Elasticities measure the responsiveness of an individual's change in behavior resulting from a change in tax policy.[viii] To measure the impact on labor force participation, estimated elasticities are multiplied by the percentage change in the metric of interest (such as the after-tax wage rate). Estimates vary, but the Congressional Budget Office (CBO) uses central elasticity estimates of −0.05 for income effects and 0.25 for substitution effects, which account for effects along both the intensive and extensive margins.[1,ix]

Further, labor supply effects are not uniform across the income distribution or demographics, as different groups of workers react differently to taxes and transfers. For example, the literature suggests slightly higher average elasticities for low-income individuals and married mothers than for high-income individuals and single mothers or fathers. As women have increased their workforce participation, however, newer research suggests narrower differences for women by marital status.[x]

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1   For substitution effects, this would mean a 1% increase in the after-tax wage rate results in a 0.25% increase in hours worked. For income effects, this would mean a 1% increase in the after-tax wage rate results in a 0.05% decrease in hours worked. CBO defines the after-tax wage rate as the "amount of income from working another hour that a taxpayer gets to keep."

Simulating Employment and Poverty-Reduction Effects

Assessing how the TCJA's and ARP's temporary CTC changes have affected families should play a pivotal role in determining future policy. Recent proposals aimed at expanding the CTC rightly emphasize the credit's impact on (and further potential for) reducing poverty. Ongoing deliberations about permanent reforms, however, must also consider the work disincentives resulting from a larger credit that is delinked from earnings.

An emerging but growing body of evidence seeks to better understand the work disincentives and anti-poverty effects of a CTC expansion. We analyzed multiple studies that estimated the potential effects, with particular focus on employment and poverty reduction. Across these studies, the potential job loss—typically expressed as the number of parents exiting the workforce—ranged from 149,000 to 1.46 million, as shown in **Table 2**.[2] This wide range was largely due to different methodological assumptions made by the studies' authors. The following analysis discusses the selection of substitution elasticities to measure employment effects, the assumptions embedded into simulating workforce behavior, and the impact on child and deep child poverty in an effort to help policymakers synthesize the evidence and advance CTC policy deliberations.

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2   Brill et al. were an outlier, presenting the change in employment as a reduction in full-time equivalent (FTE) workers, accounting for both workforce exits and reductions in hours worked. See Alex Brill, Kyle Pomerleau, and Grant M. Seiter, "Unintended Consequences: Democrat's Child Tax Credit will Cost Jobs," *Bloomberg Tax*, April 22, 2021. Available at: **https://www.aei.org/op-eds/unintended-consequences-democrats-child-tax-credit-will-cost-jobs/**.

Table 2: Summary of the Potential Employment and Anti-Poverty Effects of an Expanded CTC

	NASEM (2019)[xi]	Corinth et al. (2021)[xii]	Goldin et al. (2022)[xiii]	Brill et al. (2022)[e, xiv, xv]	Bastian (2023)[xvi]	
					Larger Elasticities	**Preferred Elasticities**
Substitution Elasticities	N/A	0.75 (low-income single mothers) 0.25 (all other tax units)	0.2 (single mothers and all fathers) 0.3 (married mothers)	0.25 (all earners)	0.75 (low-income single mothers) 0.25 (all other tax units)	0.4 (low-income single mothers) 0.2 (all other mothers) 0.05 (all other tax units)
Income Elasticities	- 0.085 (single mothers) - 0.12 (married mothers) - 0.05 (all other tax units)	- 0.085 (low-income single mothers) - 0.05 (all other tax units)	- 0.085 (single mothers) - 0.12 (married mothers) - 0.05 (all other tax units)	- 0.05 (all earners)	N/A	N/A
Change in Employment (Parents Exiting the Workforce)[a]	-149,000	-1,460,000	-386,000	-296,000*	-728,000	-354,000
% Change in Child Poverty (Static)[b,c]	-42%	-34%	N/A	-35%	-32%	-32%
% Change in Child Poverty (Dynamic)[d]	-41%	-22%	N/A	N/A	-27%	-30%
% Change in Deep Child Poverty (Static)	N/A	-39%	N/A	N/A	-44%	-44%
% Change in Deep Child Poverty (Dynamic)	-52%	0%	N/A	N/A	-41%	-43%

a. The projected change in employment is presented as the number of parents who would leave the workforce. Four of the five studies above presented employment impact in that way. Brill et al. were an outlier (denoted by *), presenting the change in employment as a reduction in full-time equivalent (FTE) workers. For studies that offer a range estimate, the midpoint is presented in the table.
b. The Supplemental Poverty Measure (SPM), which unlike the official poverty measure accounts for government programs designed to assist low-income households, was used by most authors to calculate their baseline measures of child poverty. Two poverty thresholds were assessed: *Child poverty* is defined as children in families at 100% or less of the SPM. *Deep child poverty* is defined as children in families at 50% or less of the SPM.
c. *Static* simulations excluded employment changes when calculating changes in poverty.
d. *Dynamic* simulations included employment changes when calculating changes in poverty.
e. This chart utilizes the central estimates for both elasticity and employment impact used in the Brill et al. analysis. While their paper applies a range of substitution elasticities that vary by income decile (aligned with the 2012 CBO report from Mok and McClelland), the average estimate for all earners is cited here. Brill et al. did not account for differences in gender or marital status in their calculations.

ACCOUNTING FOR LABOR SUPPLY EFFECTS

Even before the latest temporary expansion of the CTC in the ARP, a 2019 study from the National Academies of Sciences, Engineering, and Medicine (NASEM) modeled a similar policy change.[xvii] Specifically, it simulated an expanded CTC under the following parameters: increase the maximum credit amount for all children under 18 from $1,000 (permanent law) to $3,000; make the credit fully refundable; and eliminate the earnings phase-in.[3,4] The NASEM study estimated that such an expansion would result in minimal employment reductions attributed to the income effect, with only 149,000 people projected to stop working—by far the smallest employment impact of all the studies assessed.[xviii]

The magnitude of the income elasticities selected in the NASEM study (-0.085 for single mothers, -0.12 for married mothers, -0.05 for all other tax units) and anticipated impact on employment were consistent with other studies that modeled income effects.[xix] The study sparked debate, however, because the authors omitted substitution effects from their analysis of employment impact. The NASEM committee believed the substitution effect would be "muted" and the income effect dominant. The committee felt that most recipients would notice the increase in income from the enhanced credit, which would jump from $1,000 (the pre-TCJA baseline used in the study) to $3,000. Moreover, the authors reasoned that caregivers would be less responsive to the reduction in returns to work than the increase in income from the credit, thus responding to the income effect and not the substitution effect.[xx]

Aside from NASEM, the consensus across the other studies was that substitution effects are economically significant and therefore important to consider when modeling the employment impact of an expanded CTC.[xxi] In their research, Corinth et al. contested NASEM's assumption, asserting that simultaneously expanding the CTC and eliminating the earnings phase-in would result in meaningful income *and* substitution effects. Corinth et al.'s model estimated that 1.46 million parents would exit the labor force, with the substitution effect accounting for the vast majority of that job loss (1.32 million).

Despite agreement that the substitution effect is important, the size of substitution elasticities remains a major source of debate among economists, contributing to the wide range of projected job loss estimates. In particular,

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3   The maximum credit started to phase out at 300% of the poverty line and was fully phased out by 400% of the poverty line.

4   Although NASEM published its study in 2019 after the TCJA's increase to the CTC, the group conducted its analysis of a CTC expansion before the enactment of the TCJA in 2017. Its baseline was a $1,000-per-child CTC, while other studies used the TCJA baseline of $2,000 per child. NASEM, therefore, measured a larger change in the CTC (from $1,000 to $3,000 per child, a tripling of the credit) than other studies (which measured a change from $2,000 to $3,000 per child ages 6-17 and $3,600 per child ages 0-5).

Corinth et al.'s selection of 0.75 for low-income single mothers was a clear outlier (**Table 2**). Prior research indicates that labor elasticities likely differ across tax units (e.g., by gender or marital status), and that low-income single mothers, in particular, would be more responsive to work incentives associated with tax credits.[xxii] Corinth et al. thus argued that 0.75 is a reasonable substitution elasticity because it falls at the midpoint of the range for single mother EITC recipients, consistent with academic literature and 2012 Congressional Budget Office estimates on labor elasticity.[5,xxiii]

Other academics, however, critiqued Corinth et al. on the magnitude of their selected elasticity for single mothers receiving the EITC. Hilary Hoynes, economist and NASEM author, questioned their reasoning, contending that if substitution effects for single women were to be included in the NASEM modeling, a more realistic estimate would be between 0.2-0.4.[xxiv] Other studies similarly assumed a smaller elasticity for single mothers: Bastian selected 0.4 for low-income single mothers and Goldin et al. selected 0.2 for single mothers, further calling into question Corinth et al.'s outlier of 0.75 in their simulation.[6,7]

Bastian's research further showed the power of using larger elasticities to determine the impact on labor supply. When using his preferred substitution elasticities, Bastian estimated 354,000 parents would stop working, but this more than doubled to 728,000 when he used Corinth et al.'s larger substitution elasticities instead.[8]

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5   Previous studies found that single mothers receiving the EITC have a higher labor supply elasticity than other tax units. For low-to-moderate single wage earners, a small change in income or wages can lead to a large change in overall household resources, affecting their work decisions differently than other groups. For more on this, see Henrik Kleven, "The EITC and the Extensive Margin: A Reappraisal," National Bureau of Economic Research, November 2021. Available at: https://www.henrikkleven.com/uploads/3/7/3/1/37310663/kleven_eitc_nov2021.pdf.

6   Goldin et al.'s selected elasticity of 0.2 for single mothers is smaller than Corinth et al. and Bastian because they do not focus solely on low-income single mothers who are found, based on EITC research, to be more responsive to changes in tax policy.

7   Goldin et al. also simulated the potential employment impact separately along the intensive and extensive margins for the substitution effect. Motivated by literature citing different impacts along each margin, the authors used intensive margin elasticities of 0.145 for married mothers and 0.055 for others (fathers and single mothers), and extensive margin elasticities of 0.09 for married mothers and 0.015 for others (fathers and single mothers). This yielded a slightly larger potential employment impact, with an estimated 528,000 workforce exits, but still well below Corinth et al.'s 1.46 million estimate.

8   Beyond just a different selection of substitution elasticities, Bastian's model differed from that of Corinth et al. by using different underlying assumptions to project parental workforce exits. By isolating the substitution effect within his model to test his preferred elasticities versus Corinth et al.'s elasticities, Bastian demonstrated the potential effects that the substitution elasticity alone could have on employment loss even if all other methodological elements were kept constant.

SIMULATING EMPLOYMENT DECISIONS

Another contributing factor to the large spread of projected employment effects in these studies was the researchers' assumptions about caregivers' decisions to stop working. Corinth et al.'s model measured work or nonwork decisions by tax unit rather than by individual, even if that tax unit was two married parents filing jointly. As a result, their model assumed that in the case of two parents working, either both parents remained employed or both parents exited the workforce in response to the expanded CTC. Corinth et al. noted this in the caveats for their analysis: "We would also need a more sophisticated model than the one we employ to consider the separate incentives of both spouses in a couple." Assuming that workforce changes were a joint decision was a limitation of Corinth et al.'s research and partially drove their larger projected employment impact.

When modeling the employment impact, all other studies allowed for independent work decisions between spouses. Although Bastian's research using his preferred elasticities showed smaller reductions in employment, he also conducted analyses of Corinth et al.'s elasticities under joint and independent parental decisions to compare the effects. When replicating Corinth et al.'s joint decision constraint, Bastian estimated 1.328 million parents would stop working from the substitution effect, compared with 728,000 when simulating independent parental decisions.[9] In a separate analysis, Bastian decomposed who makes up workforce exits in Corinth et al., and found that nearly two-thirds of Corinth et al.'s projected exits came from married parents. This further calls into question how Corinth et al. modeled employment changes.[xxv] Brill et al. and Goldin et al. used a different modeling approach in which they allowed workers in two-parent households to make

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9   In an earlier version of this research, Bastian originally replicated Corinth et al.'s study to compare to his preferred elasticities. In the final version of the research, Bastian used Corinth et al.'s larger elasticities, but allowed for independent parental decisions—as he did with his preferred elasticities—to test the robustness of the results. The earlier version of this research was made available in 2022: Jacob Bastian, "Investigating How a Permanent Child Tax Credit Expansion Would Affect Employment and Poverty," June 2022. Available at: http://jacobbastian.squarespace.com/research.

independent decisions; this contributed to smaller employment effects of 296,000 and 386,000, respectively.[10]

KEY TAKEAWAY:

When comparing the potential employment loss of a CTC expansion, it is important to consider the authors' methodological assumptions about how to account for work decisions. Conflating the results of studies that modeled joint parental decisions to exit the workforce with those that modeled independent decisions is inaccurate and could overstate the potential employment impact. Moreover, among the studies that modeled independent workforce decisions, results showed that the potential employment loss would be in the hundreds of thousands rather than a million-plus.

MEASURING EFFECTS ON CHILD POVERTY

Several of these studies also estimated the impact of the expanded CTC on child poverty. To determine the impact, the researchers primarily measured changes in income against the Supplemental Poverty Measure (SPM), which sets thresholds (valued in dollars) below which households are considered to be in poverty or in deep poverty, adjusted for household size. Household income, inclusive of taxes and government transfers, is used to calculate whether a family falls above or below this threshold.[xxvi]

Most researchers constructed baseline incomes by incorporating the same tax and transfer assumptions as the SPM, using values from the U.S. Census Bureau's Current Population Survey Annual Social and Economic Supplement (CPS-ASEC) to capture income from various government transfer programs. Corinth et al., however, constructed household income and poverty thresholds using the Comprehensive Income Dataset (CID) that links tax and administrative data to the CPS-ASEC in a way that they believed more accurately captured under-reporting of income in survey data.[11,12]

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10   Brill et al. were the only authors examined who expressed employment impact as full-time equivalent (FTE) job loss.

11   To set the income baselines used in their study, Corinth et al. relied first on the Comprehensive Income Dataset (CID), which links tax and administrative data with survey data (CPS-ASEC). They believed that this more accurately captured available income variables related to earnings and transfer programs due to high rates of under-reporting income on surveys. Additionally, Corinth et al. did not subtract medical out-of-pocket expenses or child care and work expenses from income, which are included in the SPM income baseline, because they felt this overstated the number of households in poverty. Given that their alternative measure produced slightly higher income levels overall, Corinth et al. had to raise the poverty threshold (valued in dollars) to keep it relatively constant with the baseline poverty rate of 13.7% used in other simulations. This adjustment ultimately had a larger impact on the projected reduction in deep poverty, because that threshold was higher than it would have been under the SPM.

12   The TRIM3 model used by NASEM also corrects for under-reporting of income and income support programs in the CPS-ASEC data. To adjust for under-reporting, the TRIM3 microsimulation model applies the rules of current tax and benefits program,

Once baseline incomes and poverty thresholds were set in each study, the authors calculated child poverty both on a static basis (not including labor supply changes) and a dynamic basis (including labor supply changes) to demonstrate how employment and poverty effects interact. The studies' divergence in dynamic simulations offers key insights into the potential impact of employment changes on poverty reduction. Bastian's research found that child poverty and deep child poverty would still decline after considering employment changes. The magnitude of that decline, however, was much larger—dynamic estimates of 30% and 43% declines in child poverty and deep child poverty, respectively—than Corinth et al. found in their modeling. Bastian concluded that a CTC expansion would still have large anti-poverty effects regardless of the size of the elasticities used because relatively few low-income parents would stop working altogether and a substantial portion of workforce reductions would be from households where only one parent would exit, and thus would not pull them below the poverty line.

Additionally, Bastian demonstrated how the employment decisions used in Corinth et al.'s simulation likely affected the study's estimated anti-poverty effects of a CTC expansion. When limiting labor response to joint parental decisions, Corinth et al.'s dynamic simulations estimated reductions of 22% in child poverty and no effect on deep child poverty. Bastian's research arrived at a different conclusion, estimating a 27% reduction in child poverty and 41% reduction in deep child poverty when modeling independent parental decisions using the same larger elasticities. Bastian found similar poverty-reduction results when using his preferred elasticities, suggesting that the magnitude of elasticities is less important for the anti-poverty effects than assumptions about who is exiting the workforce or reducing hours worked. As such, constraining workforce exits to a joint decision—as Corinth et al. did—likely overstates the number of households moving to zero earnings because of an expanded CTC, thus understating the potential reductions in child poverty and deep child poverty.

KEY TAKEAWAY:

Ultimately, poverty estimates were heavily affected by the authors' methodological decisions, namely on constructing baseline incomes and how to model employment decisions. The estimates that allow for individual parental decision-making reduced child poverty by approximately one-third in the dynamic estimates. Particularly for deep child poverty, assumptions about parental work decisions can greatly influence whether a family is pulled above or below the threshold as a result of an expanded CTC, as Corinth et al.'s estimates show.

EVALUATING TIME HORIZONS

A separate body of empirical research published over the past couple of years looked at the immediate impact of the ARP expansion of the CTC in 2021. These studies relied on survey data from the monthly CTC payments under the ARP to estimate the employment and poverty-reduction effects. The authors concluded that child poverty, but not employment, declined significantly following the temporary ARP expansion. This finding suggests that a CTC expansion would not necessarily cause parents to exit the workforce if made permanent.[13] Further, authors of these studies have called on policymakers to lean on the recent "real-world data" to extend support for a permanent CTC expansion rather than rely on economic theory to determine the long-term impacts.[xxvii]

However, given that the ARP's temporary expansion came during the COVID-19 pandemic and on top of several other unprecedented expansions to transfer programs, there were many confounding effects on the U.S. labor supply at the time independent of the CTC expansion. Further, several authors of the studies simulating the longer-term impact of CTC reform, as well as economists at the Tax Foundation, have advocated for assessing policy effects over a longer time horizon. Relying on data from a temporary policy over a short time frame (e.g., one year) is likely insufficient to evaluate *permanent* labor supply responses that may take longer to materialize, with research suggesting as long as three to eight years.[xxviii] For example, even if the 1.5 million workforce exits calculated by Corinth et al. were to occur over several years, the impact would be challenging to detect in short-term macro data sources. Indeed, the Joint Committee on Taxation's 10-year estimate also suggests employment effects would occur over time.[14,xxix,xxx]

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13   For more on the empirical research, see Brandon Enriquez, Damon Jones, and Ernest V. Tedeschi, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit," National Bureau of Economic Research, Working Paper No. 31110, April 2023. Available at: https://www.nber.org/papers/w31110; Jack Landry, "The Expanded Child Tax Credit and Parental Employment: Tenuous Evidence Points to Work Disincentives," Jain Family Institute, 2022. Available at: https://www.jainfamilyinstitute.org/assets/Expanded_CTC_Parental_Employment_Response_Brief_Landry_2022.pdf; Ben Lourie, Devin M. Shanthikumar et al., "Effects of the 2021 Expanded Child Tax Credit," SSRN, June 2022. Available at: https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=3990385; and Elizabeth Ananat, Benjamin Glasner, et al., "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to December 2021," National Bureau of Economic Research, Working Paper No. 29823, March 2022. Available at: https://www.nber.org/papers/w29823.

14   The Joint Committee on Taxation (JCT) projected the impact of a permanently expanded CTC over the 10-year budget window, estimating overall reductions in labor supply of 0.2% on average compared to the baseline, and suggesting that changes would take several years to materialize. (JCT actually projected changes in "effective labor supply," defined as "aggregate productivity-weighted equilibrium labor employed.")

Conclusion

Researchers agree that expanding the CTC would prompt some decline in both employment and child poverty. Although the extent of the labor market response is an empirical question that economists continue to study, policymakers still face the normative question of how to design a CTC expansion that considers the likely decline in employment alongside the anti-poverty effects and the overall budgetary costs.

With the TCJA's temporary expansion of the CTC set to expire after 2025, the credit continues to be a hot topic for policymakers. As evidenced by the literature—and continuing policy debates—the lack of consensus around work incentives remains the largest roadblock to a permanent bipartisan deal. The bottom line is that CTC reform entails trade-offs, and it need not be all or nothing. Certain policies can enhance the CTC's support for the most vulnerable families while retaining some of its work incentives. An approach that achieves a balance between reducing poverty and mitigating labor losses does not require abandoning all that was learned from the ARP's temporary expansion. Rather, it would consider the evidence surrounding these new policy components to determine the most worthwhile and politically feasible trade-offs in a permanent solution.

Endnotes

i   Kalee Burns, Liana Fox, and Danielle Wilson, "Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020," U.S. Census Bureau, 2022. Available at: https://www.census.gov/library/stories/2022/09/record-drop-in-child-poverty.html.

ii   Internal Revenue Service, "IRS, Treasury announce families of 88 percent of children in the U.S. to automatically receive monthly payment of refundable Child Tax Credit," 2021. Available at: https://www.irs.gov/newsroom/irs-treasury-announce-families-of-88-percent-of-children-in-the-us-to-automatically-receive-monthly-payment-of-refundable-child-tax-credit.

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