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Hearing: "Anti-Poverty and Family Support Provisions in the Tax Code"

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Chairman Wyden, Ranking Member Crapo, and distinguished members of Committee, thank you for the opportunity to testify. My name is Bruce D. Meyer, and I am the McCormick Foundation Professor of Public Policy at the University of Chicago Harris School of Public Policy.
I have spent forty years researching the effects of government programs for those suffering disadvantage or with low incomes. My approach is to see what the facts say, not presuppose answers to policy questions. While I am testifying on behalf of the Republican minority, I am not a partisan individual. Federal Election Commission data will tell you that I have never donated to Republicans and frequently donated to Democrats. I was proud to work with a little-known Illinois State Senator in the late 1990s, Barack Obama, to pass a state earned income tax credit because my research suggested that such a credit would reduce poverty and encourage work at the same time.[2] I thought it was a good use of evidence when President Clinton cited that same research.[3] President Clinton also signed bipartisan legislation to convert a welfare system that discouraged work and prolonged poverty into one that promoted work and financial independence.[4] Times have changed. This legislative body came within a vote of reversing the pro-work incentives of the existing Child Tax Credit (CTC). I am specifically talking about the replacement of the CTC with a child allowance as included in Build Back Better Act of 2021 and other proposals. Such proposals would largely reverse the bipartisan welfare reforms of the 1990s that encouraged work, reduced poverty, and encouraged responsible parenting. I refer specifically to proposals that would make the CTC completely refundable as a child allowance, essentially converting the CTC from a credit against taxes to a cash welfare program administered by the Internal Revenue Service, conditioned neither on work nor payment of taxes.

Times have changed, but I do not believe I have, except to acknowledge that the evidence in favor of pro-work social policy has only gotten stronger. I believe it is my responsibility to push back against policy changes that have been advocated on the basis of limited and faulty evidence. In my testimony today, I will summarize the historical evidence on policies supporting low-income individuals and families; describe the likely impacts of the proposed child allowance;

[1]The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.
[2] "Make Work Pay in Illinois" a 2000 video promoting an Illinois State Earned Income Tax Credit featuring Bruce Meyer, Barack Obama and others. https://voices.uchicago.edu/brucemeyer/media/
[3] Bruce D. Meyer and Dan T. Rosenbaum, 2001, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." The Quarterly Journal of Economics 116 (3), and Bruce D. Meyer and Dan T. Rosenbaum, 2000, "Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects." National Tax Journal 53, 1027–1062.
[4] President Clinton's statement on the Personal Responsibility and Work Opportunity Act of 1996: "A long time ago I concluded that the current welfare system undermines the basic values of work, responsibility and family, trapping generation after generation in dependency and hurting the very people it was designed to help."
https://www.nytimes.com/1996/08/01/us/text-of-president-clinton-s-announcement-on-welfare-legislation.html

and argue that there are pronounced weaknesses in the evidence underpinning support for such an allowance.

History Provides the Best Evidence

The best evidence on the likely effects of proposed tax and benefit changes comes from similar changes in the past affecting the same population. Large policy changes make determining the causal impact of policy changes more obvious as other factors become relatively less important. Examining the responses over many years is more likely to show the long run effects after the target population has understood and responded to the policy changes. Some of the social trends that are crucial likely involve changing norms that may take decades to be fully evident.[5]

Welfare Reform Increased Work, Raised Living Standards, and Reduced Poverty

During the 1990s a series of policy changes shifted the emphasis of support from unconditional cash assistance to assistance conditioned on work for most single mothers.[6] While much of the attention is on PRWORA, other policy changes during this time also increased the incentives to work, including significant expansions to the Earned Income Tax Credit (EITC) between 1990 and 1996.[7] Collectively, these policy changes served to increase work effort, raise incomes and living standards, and reduce poverty, particularly among low-education single mothers, those most likely to be affected by these changes.

Employment

A number of studies have shown a direct tie between the replacement of Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families (TANF) as well as expansions of the generosity of the EITC in the 1990s and the employment of single mothers.[8]

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[5] Thomas J. Nechyba, 2001, "Social approval, values, and AFDC: A reexamination of the illegitimacy debate." Journal of Political Economy 109, no. 3 (January): 637–72. https://doi.org/10.1086/321020.

[6] For detailed discussions of these policy changes see Grogger and Karoly (2005) and Ziliak (2016).

[7] Other relevant policy changes include expanded childcare and job training as well as other noncash assistance. In addition, policies that significantly impacted single mothers continued to be implemented during and well after the welfare reform period, including expansions in Medicaid, the introduction of the Child Tax Credit in 1997, allowing a portion of the CTC to be refundable in 2001, expanded access to health insurance through the ACA, as well as other changes in tax and transfer policy. Some of these policies reduce work incentives, such as the refundability of the CTC and the expanded availability of health insurance through Medicaid without work.

[8] Bruce D. Meyer and Dan T. Rosenbaum, 2001, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." The Quarterly Journal of Economics 116 (3); Bruce D. Meyer and Dan T. Rosenbaum, 2000, "Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects." National Tax Journal 53, 1027–1062; Jeffrey Grogger, 2003, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families." Review of Economics and Statistics 85 (2): 394–408; Diane Whitmore Schanzenbach and Michael Strain. 2020. "Employment Effects of the Earned Income Tax Credit: Taking the Long View." w28041. Cambridge, MA: National Bureau of Economic Research. Henrik Kleven, 2019, "The

This link is evident in Figure 1 which reports the fraction of single mothers that were employed at any point in the year by educational attainment. The most striking feature of these patterns is the 1990s sharp rise in employment rates for single mothers without a high school degree—the group most likely to be affected by welfare reform, the EITC, or the replacement of the CTC with a child allowance. The changes largely take place between 1990 and 1999 – a period that spans the largest EITC expansions and welfare reform as well as other pro-work policies. There are only small changes in other periods prior to and after the period of welfare reform and EITC expansion. This pattern of rising employment in the 1990s is also evident, but to a much lesser extent, for single mothers with a high school degree or some college. Past work has shown that this rise in employment for low-educated single mothers contrasts sharply with the pattern for childless single women.[9] There was some reduction in employment for these groups in the 2000s that mirrored the changes for other groups, such as single women without children, but most of the increase in employment was permanent. For single mothers with a college degree, however, the employment rates have been both higher and remarkably flat over the past 35 years. Overall, between 1990 and 1999, the employment of single mothers rose by 1.2 to 1.4 million people.[10]

Living Standards

While this sizeable and permanent increase in involvement in the labor market led to increased earnings for single mothers, it is not immediately clear whether the increase in employment led to improvements in economic well-being given the sharp decline in the receipt of cash welfare, as well as other concerns such as the greater need for childcare due to increased work. The evidence is that living standards at the bottom did increase substantially, as indicated by both consumption and income measures that account for survey under-reporting. Furthermore, when one accounts for the underreporting of transfers by either using consumption measures of well-being or relying on broader measures of income, researchers have found that poverty fell and well-being at the bottom rose following welfare reform.[11] Han, Meyer, and Sullivan (2021) find that what single mothers could afford in terms of housing, food, clothing and other goods—their consumption—rose sharply. Consumption on average rose for low-educated single mothers over time, in both absolute terms and relative to comparison groups of highly educated single mothers, single women without children, and married mothers. Even those with the fewest resources tended to fair better, as consumption for those at low percentiles of the consumption distribution for single mothers rose more than those at middle or high percentiles. While looking

EITC and the Extensive Margin: A Reappraisal." w26405. Cambridge, MA: National Bureau of Economic Research.

[9] Bruce D. Meyer, 2010, "The Effects of the Earned Income Tax Credit and Recent Reforms." Tax Policy and the Economy 24 (1): 153–80; Robert Moffitt and Stephanie Garlow, 2018, "Did Welfare Reform Increase Employment and Reduce Poverty?" Stanford Center on Poverty and Inequality.

[10] Jeehoon Han, Bruce D. Meyer, and James X. Sullivan NTJ 2021. The range of estimates is due to a choice of whether to control for the education of single mothers (which greatly increased over this period) or not, and if so, what year to use for the base year distribution. Some of this increase is likely due to the improvement in economic conditions over this period, but not a large share given the lack of reversion to lower employment during the recessions of the 2000s.

[11] Bruce D. Meyer and James X. Sullivan, 2008, "Changes in the Consumption, Income, and Well-Being of Single Mother Headed Families." American Economic Review 98 (5): 2221–41; Scott Winship, 2016, "Poverty after Welfare Reform." Washington, D.C: Manhattan Institute; Jeehoon Han, Bruce D. Meyer, and James X. Sullivan, 2021, "The Consumption, Income, and Well-Being of Single Mother–Headed Families 25 Years After Welfare Reform." National Tax Journal, September.

at what individuals were actually able to afford might be preferred given the underreporting of income in surveys,[12] evidence from income data also is consistent with these spending patterns. When joined with administrative data to reduce underreporting problems, survey income data show that for single mothers over this period there was a reduction in poverty and deep poverty consistent with the consumption evidence.[13] Other research has supported this conclusion.[14] Poverty

The decline in poverty for single mothers due to their increased connection to work is one of the most pronounced successes in poverty reduction over the last 50 years. The fall in poverty for other demographic groups over this period has been due to increased receipt of government benefits. Single mothers, on the other hand, have seen large improvements in their living standards due to their own efforts complemented by government work supports like the EITC and CTC.[15]

Finally, I note that the current safety net still has many safety valves for those unable to work. Currently, over 1.9 million individuals receive TANF, 41 million individuals receive SNAP and 8.5 million individuals receive Supplemental Security Income (SSI), to name a few programs. Not everyone should be expected to work. However, we learned in the 1990s that more people could work than many thought possible.

Welfare Reform was Associated with a Decline in Single Parenthood

Figure 2 reproduces a figure from the U.S. Census Bureau on the living arrangements of children in the U.S. since 1960. Note the decline in the share of those living with two parents. Expressed in a more telling way, there was a tripling of the share of children living without two parents between 1960 and the early 1990s. In the following years, the pattern was essentially flat, with a decline in the share without two parent in the first decade of the 2000s. Thus, the share of children with a single parent stabilized and then started to fall after welfare reform,

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[12] Bruce D. Meyer and Wallace K.C. Mok, 2015, "Household Surveys in Crisis." Journal of Economic Perspectives, 29(4), 199–226; Meyer, Mok and Sullivan. Bruce D. Meyer and Nikolas Mittag. 2019. "Using Linked Survey and Administrative Data to Better Measure Income: Implications for Poverty, Program Effectiveness and Holes in the Safety Net." American Economic Journal: Applied Economics, 11(2): 176-204.

[13] Kevin Corinth, Bruce D. Meyer, and Derek Wu, 2022, "The Change in Poverty from 1995 to 2016 Among Single-Parent Families." American Economic Association Papers and Proceedings, 112: 345-350; Bruce D. Meyer, Derek Wu, Victoria Mooers, and Carla Medalia, 2021, "The Use and Misuse of Income Data and Extreme Poverty in the United States." Journal of Labor Economics 39 (S1): S5–58 find that the extreme poverty rate was so low after welfare reform for families with children that it could not have substantially increased after welfare reform.

[14] Richard V. Burkhauser, Kevin Corinth, James Elwell, and Jeff Larrimore, Forthcoming, "Evaluating the Success of the War on Poverty Since 1963 Using an Absolute Full-Income Poverty Measure." Journal of Political Economy (Forthcoming) https://doi.org/10.1086/725705, and Dana Thomson, Renee Ryberg, Kristen Harper, James Fuller, Katherine Paschall, Jody Franklin, and Lina Guzman, 2023, "Lessons From a Historic Decline in Child Poverty, Child Trends.

[15] Richard V. Burkhauser, Kevin Corinth, James Elwell, and Jeff Larrimore, Forthcoming, "Evaluating the Success of the War on Poverty Since 1963 Using an Absolute Full-Income Poverty Measure." Journal of Political Economy (Forthcoming) https://doi.org/10.1086/725705

reversing a more than thirty-year trend.[16] While the evidence on causal links here is less definitive, the time pattern is strongly suggestive. It is also consistent with the empirical evidence that economic incentives have an influence on marriage decisions.[17]

The Institution of a Child Allowance Would Largely Reverse Welfare Reform

I begin by comparing the magnitude of the changes in incentives under proposals such as the Build Back Better Act of 2021 that would replace the current Child Tax Credit with a child allowance to the changes instituted under welfare reform in the 1990s.

Work Incentives

Welfare reform had many features, but the two most salient were the expansion of the EITC which increased the financial return to work, and the elimination of unconditional cash aid under the TANF program. The replacement of the CTC with a child allowance incorporates these two main features of welfare reform, but in the opposite direction, reducing the financial return to work and providing unconditional cash aid with no restriction to an even larger group than under the former AFDC program.

To interpret the applicability of the experience of welfare reform to the change to a child allowance, it is helpful to scale the relative size of the changes in work incentives and unconditional aid. In 1990, AFDC provided aid to 3.8 million adults and their children in a typical month, but the number had declined to 1.9 million by 1999.[18] Thus, the number of adults receiving aid declined by about 1.9 million. The child allowance would reach several multiples of that count, including about 9.6 million single parents, excluding cohabiting couples.[19] Under the pre-PRWORA welfare system, a non-working single parent with two children in January of 1996 received 846-1484 dollars monthly from AFDC and Food Stamps (in 2023 dollars, depending on the which of the lower 48 states in which they lived). In 2023, the child allowance plus SNAP benefit (the replacement for Food Stamps) would have been higher even after accounting for inflation than the old welfare benefits in 32 states and the District of Columbia. These states with higher benefits for non-working families contained 63 percent of the 2020 population. These benefits for families with a non-working head would be in addition to those under PRWORA, housing assistance and other programs. The cash assistance provided by the IRS through a child allowance would be much more widely available and more taken advantage of than AFDC given its ease of receipt and universality. However, it should be noted that a child

[16] See https://www.census.gov/data/tables/time-series/demo/families/children.html . A good visual summary is provided by https://www.census.gov/content/dam/Census/library/visualizations/time-series/demo/families-and-households/ch-1.pdf

[17] Melissa S, Kearney, "The Two-Parent Privilege," University of Chicago Press, Forthcoming 2023.

[18] U.S. Department of Health and Human Services. 2004a. "Caseload Data 1990 (AFDC Total)." Office of the Administration for Children and Families.

[19] United States Census Bureau. 2020. "America's Families and Living Arrangements: 2020."

allowance would not bring back the high implicit marginal tax rates under AFDC that applied to many more recipients prior to welfare reform than after.

The relative size of the EITC and child allowance work incentives can be seen in Figure 3. The figure reports the EITC incentives to work for a single parent with two children as well as the incentives of the CTC that would be reversed by a child allowance. The CTC work incentives are a substantial share of the EITC incentives at very low earnings, and exceed EITC incentives at earnings above $30,000. But this figure for the EITC in 2021 reflects increases in the EITC prior to 1990 to which we cannot attribute the increase in employment of single mothers in the 1990s. In 1990 the maximum credit was already $1,934 (in 2021 dollars) compared to the $5,920 in Figure 3. Thus, the change in the EITC incentives (along with TANF changes) during the 1990s were only a share of the EITC incentives indicated in Figure 3 and more comparable to the CTC work incentives that would be eliminated by the change to a child allowance available for nonworkers.

Employment and Poverty

While the visual evidence is fairly compelling, a large body of evidence concludes that some combination of welfare reform and EITC expansions were responsible for the large rise in employment among single mothers during the 1990s, beyond the effect of a strong economy.[20] While there is some argument as to the relative importance of the EITC and welfare reform there is no argument that the combined change in policies was responsible for the increase in employment. Whether thought of as reversing welfare reform or eliminating a program similar to the EITC, the change to a child allowance could be expected to reverse most or all of the employment gains of the 1990s.

The similarity of replacing the CTC with a child allowance to reversing the welfare reforms of the 1990s has implications for the effects of the child allowance on poverty. If bringing back unconditional cash aid and eliminating substantial work incentives can be thought of as reversing welfare reform, it would likely undo the beneficial effects of welfare reform on poverty.

[20] Bruce D. Meyer and Dan T. Rosenbaum, 2001, “Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers.” The Quarterly Journal of Economics 116 (3); Jeffrey Grogger, 2003, “The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families.” Review of Economics and Statistics 85 (2): 394–408; Diane Whitmore Schanzenbach and Michael Strain. 2020. “Employment Effects of the Earned Income Tax Credit: Taking the Long View.” w28041. Cambridge, MA: National Bureau of Economic Research. Henrik Kleven, 2019, “The EITC and the Extensive Margin: A Reappraisal.” w26405. Cambridge, MA: National Bureau of Economic Research.

The Case for a Child Allowance has been Based on Faulty Evidence

Forecasted Effects on Work and Poverty

The CTC produces strong work incentives because the credit is generally available only to parents who work. Eliminating the CTC would therefore reduce employment participation by decreasing the return to work.[21]

Work Incentives

Rather than looking to the experience of welfare reform, a number of studies have forecasted the anti-poverty effects of replacing the CTC with a child allowance through simulations.[22] In addition to relying solely on survey data, most of the studies do not incorporate the impact of the decline in work resulting from changes in the CTC when modelling impacts on income and poverty.[23] The National Academy of Sciences (2019) analyzed the employment and hours effects of a similar policy and is often cited as evidence that the replacement of the CTC with a child allowance would have minimal employment effects.[24] However, it omitted the effects on employment and poverty of eliminating the work incentives of the CTC, basing its calculations on a child allowance in its simplest form without pre-existing work incentives. It included such work incentives when forecasting the effect of expanding the EITC. This gives the appearance of the NAS including employment effects when they supported policies it promoted, while excluding them when they made favored policies look less promising.

Surveys alone are Insufficient to Measure Poverty

Furthermore, relying on surveys alone to measure income may bias estimates of the anti-poverty effects of proposed policies. Survey-reported values of income have been found to understate

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[21] Replacing the CTC with a child allowance (akin to a universal basic income-type benefit for children) and increasing the maximum benefit amount would further reduce employment by increasing the incomes of all families working and nonworking (through what economists call an income effect).
[22] These studies include Acs and Werner 2021; Brill, Pomerleau, and Seiter 2021; Collyer et al. 2021; Congressional Research Service 2021; Marr et al. 2021.
[23] Following the insight of Corinth et al, some recent papers have responded by including labor supply responses on the participation margin, e.g. Goldin et al. and Bastian 2022, but they have tended to use a responsiveness to tax credits far from the central tendency of the work on tax credits for those with low incomes.
[24] One report notes: "An expert panel convened by the National Academy of Sciences projected that under a child credit policy similar to the expanded Child Tax Credit, 99.5 percent of working parents would continue to work, and few would substantially reduce their hours" (Sherman, Marr, and Hingten 2021). Some previous studies simulating the anti-poverty effects of replacing the CTC with a child allowance cite the NAS report as a justification for not incorporating labor supply effects (e.g., Acs and Werner 2021; Collyer et al. 2021). A letter from 462 economists submitted to Congressional leaders on September 15, 2021 argues that replacing the CTC with a child allowance would lead to minimal work reduction based on the NAS report, stating: "Indeed, the panel of experts who reviewed this issue for the National Academy of Sciences concluded that a universal child allowance would have a negligible effect on employment."

true incomes for both market income sources and government benefits.[25] This error can lead survey data to not only overstate the level of poverty but also understate the anti-poverty effects of existing government programs.[26] To address the misreporting of income and other information in surveys, the Comprehensive Income Dataset (CID) links major household surveys with an extensive set of tax records and administrative government program data sources.[27] The CID improves upon existing efforts to simulate proposed policies by calculating a more accurate distribution of baseline incomes, modeling the replacement of the CTC with a child allowance more accurately, and enabling more accurate comparisons of the child allowance to existing programs.

Simulations

In simulating the effects of a child allowance on poverty, it is important to account for any resulting reductions in employment. While other behavioral responses may be important, such as changes in private transfers and living arrangements, the response for which we have the best evidence is labor supply. The most reliable way to simulate the employment effects of a change to a child allowance is by relying on values of the responsiveness to taxes that have been used by the NAS, the Congressional Budget Office, and are reported in academic surveys of the responsiveness of low-income individuals to tax credit changes. I report estimates here that use a degree of responsiveness that is in fact lower than that implied by some of the most notable studies.[28]

In work with Corinth, Stadnicki and Wu, I estimate that the decreased return to work would lead 1.32 million working parents to exit the labor force, while the income effect would reduce employment by a further 0.14 million, for a total employment loss of 1.46 million workers (constituting 2.6% of all working parents).

Our estimate of employment loss due to the change to a child allowance differs markedly from the corresponding estimate in a 2019 NAS report, which concludes that replacing the CTC with a child allowance similar to that proposed under the Build Back Better Act of 2021 would reduce

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[25] See Adam Bee and Joshua Mitchell. 2017. “Do Older Americans Have More Income Than We Think?” SESHD Working Paper SESHD-WP2017-39. Bureau of the Census (US) for the impact of underreporting of market income sources and Bruce D. Meyer and Nikolas Mittag. 2019. “Using Linked Survey and Administrative Data to Better Measure Income: Implications for Poverty, Program Effectiveness, and Holes in the Safety Net.” American Economic Journal: Applied Economics 11 (2): 176–204 for underreporting of government benefits.
[26] Bruce D. Meyer and Derek Wu. 2018. “The Poverty Reduction of Social Security and Means-Tested Transfers.” ILR Review 71 (5): 1106–53; Shantz, Katherine, and Liana E. Fox. 2018. “Precision in Measurement: Using State-Level Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families Administrative Records and the Transfer Income Model (TRIM3) to Evaluate Poverty Measurement.” Washington, D.C.: U.S. Census Bureau.
[27] Bruce D. Meyer, Derek Wu, Victoria Mooers, and Carla Medalia, 2021, “The Use and Misuse of Income Data and Extreme Poverty in the United States.” Journal of Labor Economics 39 (S1): S5–58; Kevin Corinth, Bruce D. Meyer, and Derek Wu, 2022, “The Change in Poverty from 1995 to 2016 Among Single-Parent Families.” American Economic Association Papers and Proceedings, 112: 345-350.
[28] See Appendix A of 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 29366 (revised March 2022).

employment by 0.15 million workers.[29] NAS (2019) obtains a much smaller employment reduction because it does not account for the decrease in the return to work, despite accounting for such an effect when analyzing reforms to the EITC. Instead, the NAS report only estimates employment loss due to an income effect, which is similar in magnitude to our estimate of the income effect. If the NAS had applied to the CTC the methods it used to simulate changes to the EITC, it would have found an estimate larger than ours.[30]

Additional evidence on the plausibility of our employment responses comes from the two studies that I am aware of that directly examine the employment effects of the CTC, a 2019 study by U.S. Treasury economist Kye Lippold[31] and a 2022 working paper by Hyein Kang.[32] Lippold estimates that when a child turns 17 and thus loses eligibility for the CTC—prior to the more generous TCJA version taking effect—low-income parents' probability of employment falls by 8.4 percentage points, implying a work responsiveness considerably larger than what we principally assumed in our simulations. Kang finds a responsiveness of single mothers' employment to the maximum CTC amount only slightly smaller than others have found for the maximum EITC benefit. She also finds a response of hours worked conditional on working at all.

My paper has generated some pushback. The arguments have generally been that we have assumed too high a responsiveness to taxes. In fact, our estimates tend to be lower than those of our most vociferous critics. The assumed responsiveness was lower than that used by the NAS. It is claimed that the responsiveness of individuals to taxes has fallen over time. However, the evidence is based on a decline since the early 1970s, not since the late 1980s and early 1990s from which most of the evidence is derived.[33]

Implications of My Research

Labor force exits due to the child allowance would have important implications for the anti-poverty effect of the policy change. Allowing for behavioral responses, we estimate that the effect of the change to a child allowance on child poverty would fall from 34% based on our simulation ignoring employment changes to at most 22% based on simulations allowing for a change in employment. Moreover, we estimate that replacing the CTC with a child allowance would have no effect on deep child poverty after allowing for labor supply responses, in stark contrast to the 39% reduction in deep poverty based on our simulation without employment changes.

[29] National Academies of Sciences, Engineering, and Medicine. 2019. A Roadmap to Reducing Child Poverty. Edited by Greg Duncan and Suzanne Le Menestrel. Washington, D.C.: National Academies Press.
[30] See Appendix B of 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 29366 (revised March 2022).
[31] Kye Lippold. "The Effects of the Child Tax Credit on Labor Supply." SSRN Electronic Journal, 2019.
[32] Hyein Kang, 2022, "The Child Tax Credit and Labor Market Outcomes of Mothers," working paper, University of Kentucky. https://www.hyeinkang.com/uploads/1/3/9/3/139322079/jmp.pdf
[33] See Appendix A of 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 29366 (revised March 2022).

Evidence from the Advance CTC of 2021

Monthly child allowance payments were made during the second half of 2021 under the American Rescue Plan Act. Many analyses of poverty and employment during this period have been done. This section discusses income, expenditures, and employment during the second half of 2021. One should keep in mind that given the temporary nature of the policy change, that it was likely poorly understood, and that individuals will likely change their behavior to a greater degree in the long-run. Thus, analyses of this period should not be taken as the likely effects of a permanent child allowance. Long run responses would include changes in many behaviors including employment and living arrangements, as well as changes in support from fathers, other family members and boyfriends.

Evidence of Poverty Reductions

Two highly cited sources suggest a substantial short-run decline in poverty in response to the temporary institution of the monthly child allowance payments during the second half of 2021. Researchers at the Columbia University Center on Poverty and Social Policy (CPSP) have simulated an effect of a child allowance on monthly poverty. Their approach does not use any income data from 2021, but uses data from previous years to predict a monthly measure of poverty. They conclude that child poverty was 25 percent lower in July 2021 as the result of the CTC expansion.[34] The CPSP researchers subsequently claimed that poverty rose by over 40 percent in January after the expiration of the monthly payments. These findings have been frequently cited by policymakers and the press in discussions of extending Advance CTC benefits. One of the key differences between the poverty measures that I emphasize is that the CPSP measure allows a very limited effect of behavioral responses to the substitution of a child tax credit with a child allowance.

The Census Bureau in its recent report indicates a large decline in poverty in response due to the CTC in 2021 using the Supplemental Poverty Measure (SPM).[35] The Census Bureau also does not use a direct measure of income incorporating tax credits received in 2021 in this poverty measure. Rather, it attributes predicted income tax returns received during 2022 and applies them to 2021. Such an approach is not likely to induce large errors when tax returns received in a given year are similar to those received in the following year, but 2021 was not such a year. Furthermore, the Census imputations of taxes have been found to suffer from measurement error.[36] While I suspect there has been a short-run decline in poverty due the expenditure of an additional $100 billion dollars under ARPA to make the CTC completely refundable, the evidence is overstated as in much of the CTC debate.

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[34] See https://www.povertycenter.columbia.edu/publication/monthly-poverty-july-2021, https://www.povertycenter.columbia.edu/publication/monthly-poverty-january-2022, and https://www.nytimes.com/2022/05/02/opinion/child-tax-credit.html.
2021. "The Initial Effects of the Expanded Child Tax Credit on Material Hardship."
NBER Working Paper 29285. National Bureau of Economic Research, Cambridge, MA.

[35] U.S. Census Bureau, Poverty in the U.S.: 2021, John Creamer, Emily A. Shrider, Kalee Burns, and Frances Chen, Report Number P60-277.

[36] Bruce D. Meyer, Grace Finley, Patrick Langetieg, Carla Medalia, Mark Payne, and Alan Plumley. 2020. "The Accuracy of Tax Imputations: Estimating Tax Liabilities and Credits Using Linked Survey and Administrative.

Alternative Poverty Measures

The two sources of direct evidence on cash income of households or their expenditures and consumption do not suggest sharp declines in poverty during the Advance CTC period. In particular, one can construct a measure of income poverty that can be updated on a monthly basis using reports of total money income received over the past 12 months from the Census Bureau survey that is the source of official employment statistics.[37] This measure does clearly register other pandemic tax credits, specifically the Economic Impact Payments, but shows little effect of the Advance CTC.

A second source of direct information does not require predicting income or taxes and comes from the Bureau of Labor Statistics. These consumption and expenditure poverty measures directly rely on individuals reports of the goods and services they were able to purchase for their families, rather than making an educated guess as to the resources that they have available. In Figure 4 I report quarterly measures of expenditure and consumption poverty. The expenditure measure is directly calculated from household responses as to the goods and services they purchased over a quarter. The consumption measure is largely based on actual expenditures, but it also incorporates a value of the service provided by the ownership of a home or a car, since the owner has their use without paying directly for them.[38] This series again shows a fairly steady pattern of slow improvement in poverty during the years preceding and during the Advance CTC period of the second half of 2021.

Employment

Short run employment responses to the ARPA changes should have been small given incomplete understanding of the CTC incentives as well as other features of the changes. The 2021 changes also affected calendar year decisions for a year that was already in its third month when the policy was signed and implemented. It was also known to be temporary. Using CPS data, we examine changes in employment around the time of the CTC payments. We find a decline in the employment of adults with children (the group expected to be affected by the change in tax credits based on prior research) relative to those without children beginning shortly after the passage of the American Rescue Plan Act in March 2021. This decline is only apparent for those with a high school education or less. There is little change for those with at least some college education. The decline begins to reverse in the last quarter of 2021, and by early 2022, the difference between those with and without children disappears. The magnitude of the change is about one-third of the long-run change we predicted, which does not seem unreasonable.

There have been other analyses of employment changes with the temporary replacement of the CTC. There are important drawbacks to these studies that limit their usefulness. Two of the most cited studies focus on the time after payments started (either July or August depending on the study) rather than March when the work incentives changed with full refundability.[39] This

[37] Han, Jeehoon, Bruce D. Meyer, and James X. Sullivan. 2021. "The Consumption, Income, and Well-Being of Single Mother–Headed Families 25 Years After Welfare Reform." National Tax Journal, September.

[38] The methods are described in Bruce D. Meyer and James X. Sullivan, 2012, "Winning the War: Poverty from the Great Society to the Great Recession." Brookings Papers on Economic Activity Fall: 133–200..

[39] Elizabeth Ananat, Benjamin Glasner, Christal Hamilton, and Zachary Parolin. 2021. "Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to September 2021."

misalignment of the measures with the policy changes is particularly problematic given that the program was temporary and available for only a short time. This mischaracterization of the work incentives also points to the difficulty of inferring long-run effects from a temporary program that was likely not well understood. One of these researchers also conditioned on a measure of the outcome, which makes the results unlikely to be valid.

Other Evidence of Potential Child Allowance Effects

Potential long-run effects of the change to a child allowance are also important to consider alongside short-run effects. Increased support for low-income children could improve their long-run outcomes. Researchers have found that children's access to food stamps in the 1960s and 1970s led to improved outcomes when they became adults, including higher earnings (though not increased employment), better health, less incarceration and less dependence on welfare programs.[40] Much of this evidence comes from a period when other safety net programs were much less generous than current aid, so the marginal effects might be lower today. Much of the recent evidence of positive long-term effects of income support comes from work on the EITC. Larger EITC payments for children have increased their educational attainment and their employment and earnings as adults.[41] But in the case of the EITC, the policy being examined is a combination of more income and higher employment through work incentives. That aspect of the CTC would be eliminated by a child allowance.

Changes in Single Parenthood

The change to a child allowance could also affect behavior in less favorable ways, for example by changing rates of marriage or divorce. The most methodologically sound research on this topic has found large effects of unconditional aid on single parenthood.[42] Consistent with this microdata evidence, the share of children with a single parent stabilized and then reversed after welfare reform, reversing a more than thirty-year trend.[43] Single parenthood has been found to lead to many

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Poverty and Social Policy Discussion Paper, October; See Kevin Corinth and Bruce D. Meyer, 2021, "A Note on Ananat, Glasner, Hamilton and Parolin's, "Effects of the Expanded Child Tax Credit on Employment Outcomes"" Harris School of Public Policy, https://bpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/a/3122/files/2021/10/Note-on-Ananat-et-al-2021.pdf for a discussion of the additional weaknesses of the Ananat et al. paper; Brandon Enriquez, Damon Jones and Ernest V. Tedeschi, 2023, "The Short-Term Labor Supply Response to the Expanded Child Tax Credit." NBER Working Paper 31110.

[40] Hilary Hoynes, Diane Whitmore Schanzenbach, and Douglas Almond. 2016. "Long-Run Impacts of Childhood Access to the Safety Net." American Economic Review 106 (4): 903–34; Marianne Bitler and Theodore F. Figinski. 2019. "Long-Run Effects of Food Assistance: Evidence from the Food Stamp Program." ESSPRI Working Paper Series. Economic Self-Sufficiency Policy Research Institute.

[41] 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): 1127–63; Andrew C. Barr, Jonathan Eggleston, and Alexander A. Smith "Investing in Infants: The Lasting Effects of Cash Transfers to New Families." NBER Working Paper 30373.

[42] Jeffrey Grogger and Stephen G. Bronars. 2001. "The Effect of Welfare Payments on the Marriage and Fertility Behavior of Unwed Mothers: Results from a Twins Experiment." Journal of Political Economy 109 (3): 529–45.

[43] See https://www.census.gov/library/stories/2021/04/number-of-children-living-only-with-their-mothers-has-doubled-in-past-50-years.html.

negative outcomes, for example, to lower levels of educational attainment and higher incarceration rates of children in the long run.[44]

The Child Allowance as a Universal Basic Income

Replacement of CTC with child allowance can be thought of as instituting a universal basic income (UBI) for families with children. A broad group of liberal and conservative economists have opposed a UBI.[45] The basic argument is that the current safety net targets those who are most in need while a UBI does not. A UBI would also be expensive. If the benefits are set so they are affordable, they do not provide sufficient benefits for the most need. If the benefit level is set high enough to serve those most in need, the program would be so costly that the taxes needed to finance it would sharply discourage work among the able, reducing the size of the pie to be shared. One of the most lucid presentations of this argument was written forty years ago by the husband of the current Treasury Secretary.[46] A child allowance has this feature as it is not well targeted and is expensive. It would reduce poverty at a higher cost than almost all other anti-poverty programs.[47]

Conclusions

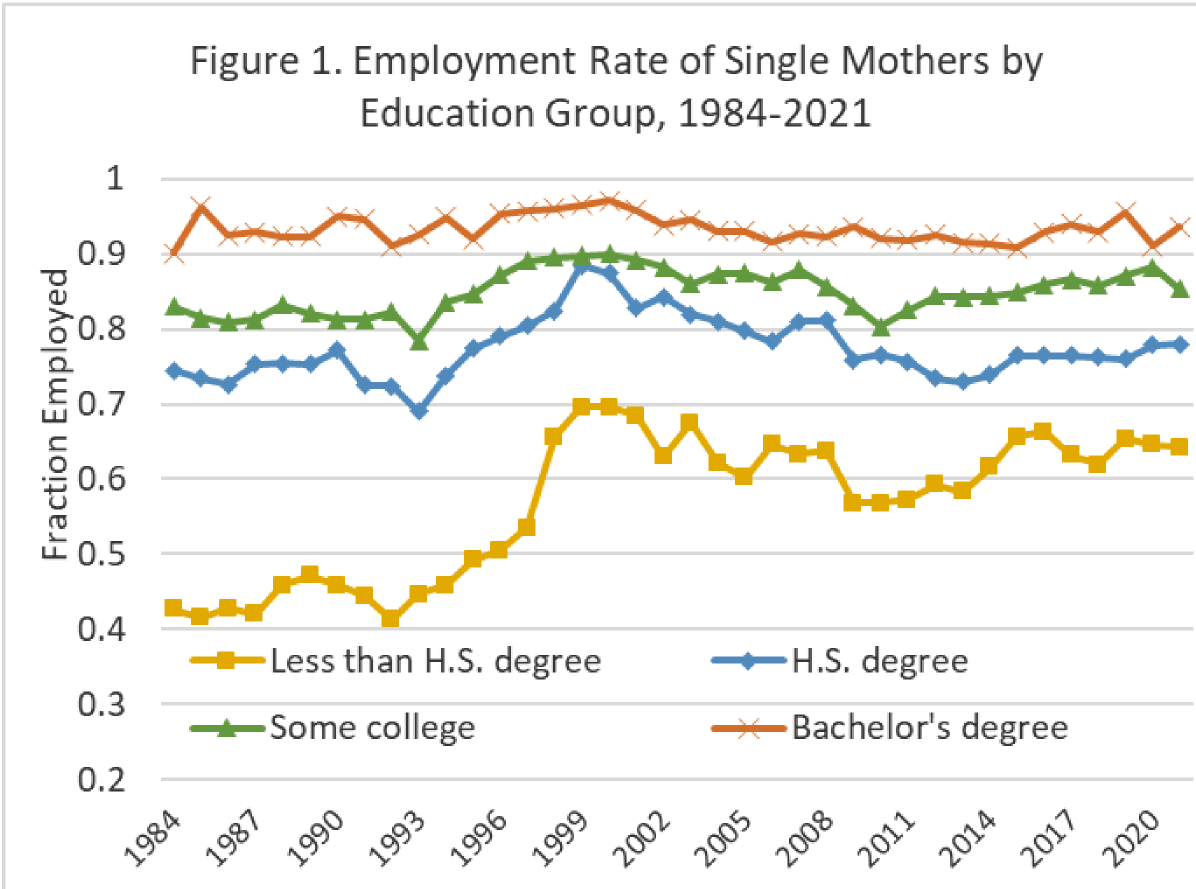
Social science tends to be inconclusive. I cannot tell you I am sure what is the right policy. But I do know that a child allowance has been sharply oversold by its proponents. We are in danger of going down the same road we did with AFDC, discouraging work, encouraging dependence. This route is not a long-run solution to poverty and risks encouraging the formation of family units that cannot adequately support their children. We are also potentially backing into universal unconditional benefits that have been widely rejected as expensive and poor targeted.

[44] Saul D. Hoffman and Rebecca A. Maynard. 2008. Kids Having Kids: Economic Costs and Social Consequences of Teen Pregnancy, Second Edition. Washington, D.C: The Urban Institute Press.

[45] Recent statements of this case are Magne Mogstand and Melissa S. Kearney, 2019, “Universal Basic Income (UBI) as a Policy Response to Current Challenges.” Aspen Strategy Group; and Hilary Hoynes and Jesse Rothstein, 2019, “Universal Basic Income in the United States and Advanced Countries.” Annual Review of Economics, 11:929-958.

[46] George A. Akerloff, 1978, “The Economics of "Tagging" as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning,” American Economic Review, 68 (1), March.

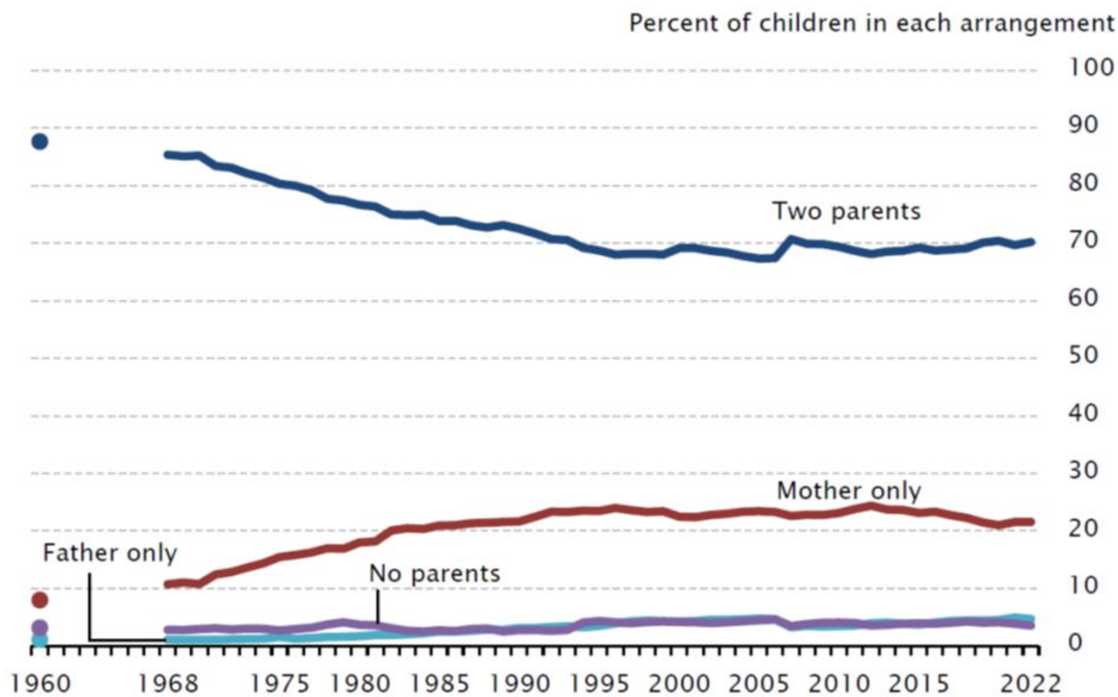
[47] Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, 2022, “The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance.” NBER Working Paper 29366 (revised March 2022).



Note: The sample consists of single women aged 18–54 who live with their own children and at least one child under age 18, excluding those with other adults in the household from the U.S. Census Bureau, Current Population Survey, survey years 1985-2022. Employment is defined as working at all for profit, pay, or as an unpaid family worker during the previous calendar year. Prior to 1991, education groups are defined based on the the highest grade completed, instead of degree obtained. The statistics are weighted using fixed demographic weights as explained in Han, Meyer, and Sullivan (2021).

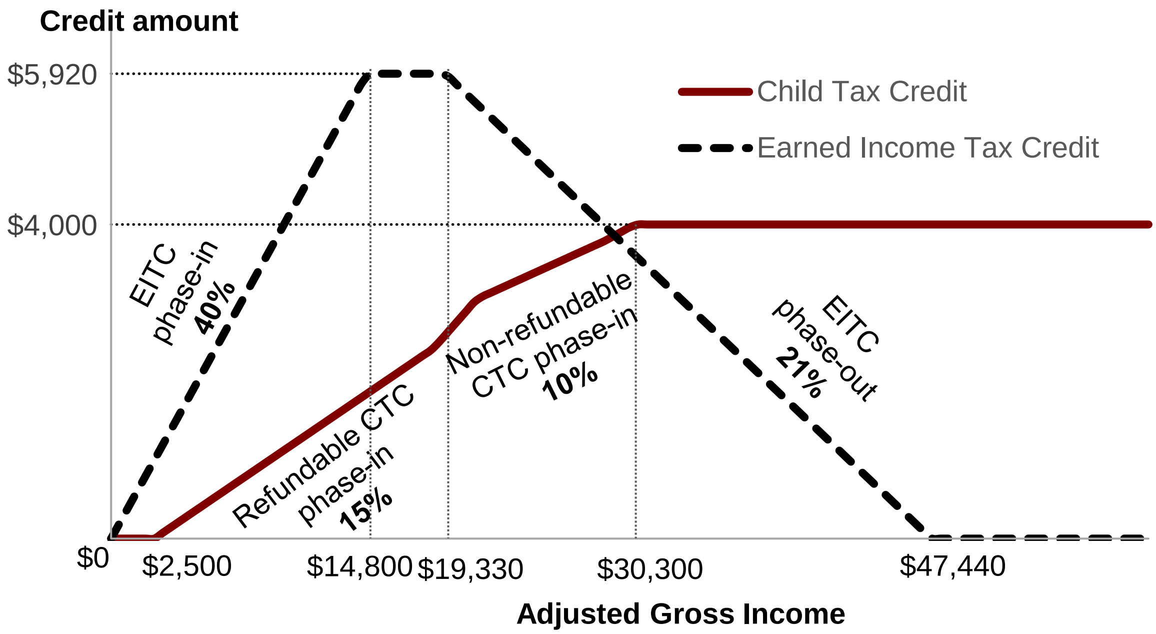
Figure 2. Living Arrangements of Children 1960-2022

Figure CH-1
Living arrangements of children: 1960 to present

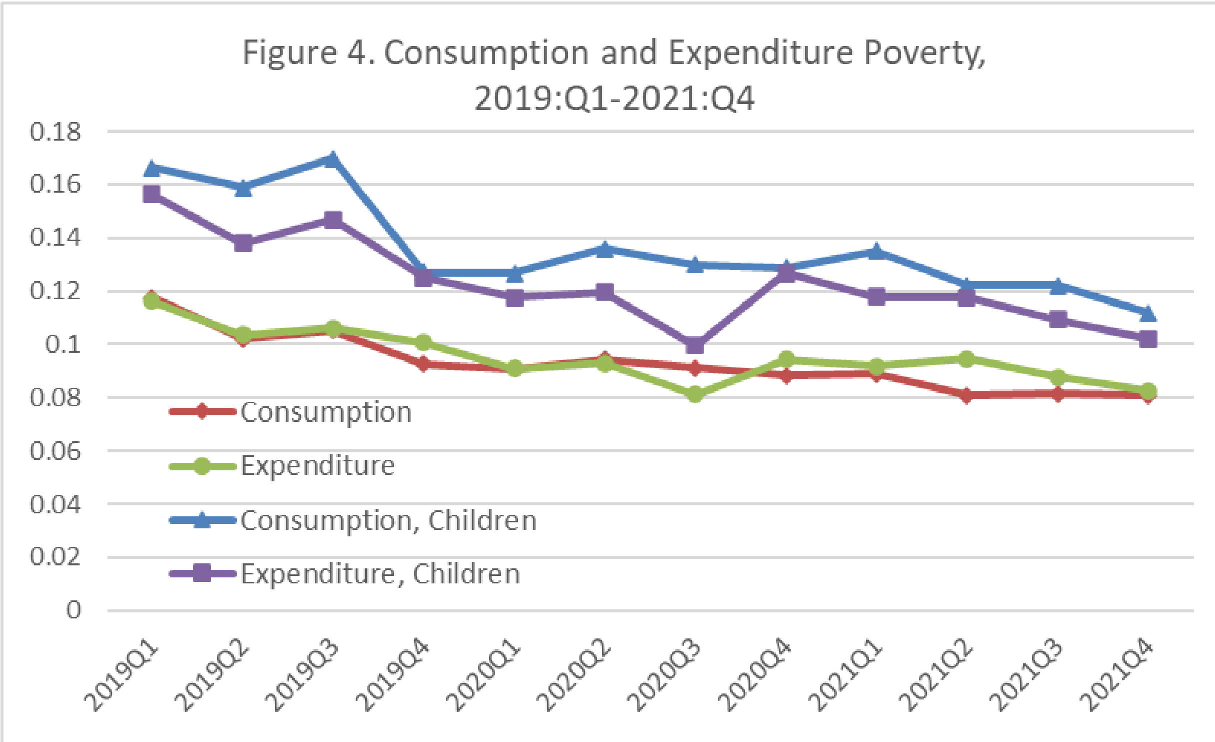


Source: U.S. Census Bureau, Decennial Census, 1960, and Current Population Survey, Annual Social and Economic Supplements, 1968 to 2022.

Figure 3. Child Tax Credit and Earned Income Tax Credit by Adjusted Gross Income Using 2020 Rules, Single Parent with Two Children Under Age 17



Source: Internal Revenue Service, Congressional Research Service
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). The child allowance is based on parameters set under the Build Back Better 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.



Notes: The data source is the Bureau of Labor Statistics Consumer Expenditure Survey. For the full sample, the threshold in 2020Q1 is anchored to the value that gives the SPM poverty rate in 2020 (9.1 percent). The thresholds are then adjusted over time using the annual CPI-U. The quarter reflects the predominant reference months for the data. Consumption includes all spending in total expenditures less spending on out of pocket health care expenses, education, and payments to retirement accounts, pension plans, and social security. In addition, housing and vehicle expenditures are converted to service flows.