Will the US child tax credit reduce poverty and improve outcomes for children and parents?

The American Rescue Plan Act of 2021 temporarily increased the value of the child tax credit from $2,000 to $3,000 for children aged 6-16 and to $3,600 for younger children. To date, the Biden administration has been unable to renew the expansion of the child tax credit, amid broad public debate about its effects on child poverty and parental labour supply, as well as its potential longer-term fiscal benefits. A panel by the Initiative on Global Markets asked top economists for their views on key angles of the discussion. ***Romesh Vaitilingam*** *sums up their opinions.*

We presented three statements to our experts regarding 1) the ability of child tax credits to reduce child poverty, 2) their costs, and 3) their impacts on parental labour supply. Of our 43 US experts, 36 participated in this survey. We asked them whether they agreed or disagreed with these statements and, if so, how strongly and with what degree of confidence.

Statement 1) A permanent version of the 2021 expansion of the child tax credit would reduce child poverty substantially.

A big majority agrees. Weighted by each expert's confidence in their response, 43% of the panel strongly agree, 51% agree, 3% are uncertain, and 3% disagree.

More details on the experts' views, as well as links to relevant research evidence, come in the short comments that they are able to include when they participate in the survey. For example, Austan Goolsbee at Chicago, who strongly agrees, says: 'Of course it would.' And among those who agree, Aaron Edlin at Berkeley alerts us to a National Academies of Sciences, Engineering, and Medicine report on reducing child poverty; Pete Klenow at Stanford mentions an NBER paper on the initial effects of the expanded child tax credit on material hardship; and Christopher Udry at Northwestern references work by the Urban Institute.

Others who agree express caveats. Robert Shimer at Chicago comments: 'But it was very poorly targeted towards poor children'; while David Autor at MIT notes: 'I am less confident than I otherwise would have been due to the Corinth et al. 2021 study. I'm still cogitating on this.'

Pinelopi Goldberg at Yale, who says she is uncertain, remarks: 'While the child tax credit is a step in the right direction, it is not clear that it is sufficient to reduce child poverty permanently.' Steven Kaplan at Chicago, who disagrees, adds: 'In the medium and long run, Bruce Meyer's research [the Corinth et al. study] suggests many offsetting effects.'

Statement 2) The costs of increasing resources for low-income families via the expanded child tax credit would be substantially offset over the longer term by the fiscal benefits of improving life outcomes for children no longer growing up in poverty.

Nearly four in five panellists agree. Weighted by each expert's confidence in their response, 20% of the panel strongly agree, 59% agree, 20% are uncertain, and 2% disagree (totals don't always sum to 100 because of rounding).

Among the comments of those who agree or strongly agree, Hilary Hoynes at Berkeley states: 'We have growing evidence that documents that more resources in childhood lead to better adult outcomes'; while David Autor points to her co-authored study of longer-term effects of the food stamp program, observing: 'Best comprehensive analysis of evidence says yes.' Christopher Udry contributes a link to UK evidence on the economic cost of growing up poor.

Kenneth Judd at Stanford agrees but declares: ‘My optimism is based more on hope than data.’ Others argue that the value of the child tax credit would not be confined to potential fiscal benefits. Richard Schmalensee at MIT responds: ‘Plausible, but fiscal benefits are hardly necessary for this to be a socially desirable policy’; and Jose Scheinkman at Columbia suggests: ‘Long-run estimates necessarily imprecise, but even at lowest benefit estimates, program is worth implementing.’

Daron Acemoglu at MIT says he is uncertain, adding: ‘I don’t know what “substantially” means. More research on how child tax credit affects human capital and subsequent earnings is needed.’ And Pete Klenow, who disagrees, links to some evidence on the net fiscal cost of a child tax credit expansion.

Statement 3) Parental labour supply would be unlikely to fall significantly following reintroduction of the expanded child tax credit.

The majority in agreement is smaller than on the first two questions but still just over two-thirds. Weighted by each expert’s confidence in their response, 3% of the panel strongly agree, 65% agree, 25% are uncertain, 3% disagree, and 3% strongly disagree.

Among the comments, Richard Schmalensee states: ‘Plausible, but I’m not sure we have good evidence.’ David Autor says: ‘My prior was no. Corinth et al. has shifted my prior towards uncertainty.’ And Christopher Udry comments: ‘This is very clearly true in developing countries. Evidence seems more mixed in the US’, linking to the Corinth et al. paper on the US, as well as a study by fellow panellist Abhijit Banerjee and colleagues of cash transfer programs in six developing countries.

Among panellists who say they are uncertain, Kenneth Judd remarks: ‘Some women may decide to stay home with children instead of keeping a job. Nothing wrong with this. Raising children is an important job.’ And Robert Shimer observes: ‘The child tax credit was probably too small to have an economically significant effect on labour supply, but income effects do matter.’ Finally, Steven Kaplan strongly disagrees, again referencing the Corinth et al. research: ‘Bruce Meyer’s research suggests that there would be a meaningful labour supply effect.’

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Notes:

- *The survey is conducted regularly on different topics by The Initiative on Global Markets, of the University of Chicago Booth School of Business. All comments made by the experts are in the full survey results.*
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