

# Opinion: Why extending the current child tax credit would do more harm than good

By Bruce D. Meyer and Kevin Corinth

October 14, 2021 at 8:00 a.m. EDT



*Bruce D. Meyer is the McCormick Foundation professor at the University of Chicago Harris School of Public Policy. Kevin Corinth is the executive director of the Comprehensive Income Dataset Project at the University of Chicago.*

One of the most popular — and most expensive — elements of Democrats’ proposed spending plan is making permanent the recently expanded child tax credit. Protecting children in the nation’s lowest-income families is important, and the credit has succeeded in helping families hit hardest by the pandemic. But our research suggests that making the tax credit permanent in its current form will end up unintentionally hurting many of the children it is supposed to help.

The child tax credit in its original form required taxpayers to have income in order to receive it. The American Rescue Plan changed the tax credit into a flat, [universal child allowance](#) for all but the highest-income families. Every family is now entitled to the allowance — at least \$3,000 per child, up from \$2,000 — even if they do not have income. (Another way of saying this is that the child tax credit became “fully refundable.”) The idea behind this change was to funnel money to families in the midst of a pandemic during which millions of workers lost their jobs.

Now, however, lawmakers seek to make the fully refundable credit permanent, based on claims that it will not meaningfully reduce employment and that it will cut child poverty by more than one third. We believe these claims are incorrect. First, replacing a tax credit available only to working families with a flat allowance will serve as a disincentive to work. Our calculations show that 1.5 million parents would leave the workforce, and as a result, child poverty would be reduced by at most 22 percent.

In addition, even without accounting for the reduction in work, the fact that benefits were increased and made fully available to families making up to \$150,000 would make the child tax credit the least cost-effective anti-poverty program in the United States. The country would spend just shy of \$30,000 per child lifted out of poverty by the expansion, compared with the less than \$16,000 spent per child lifted out of poverty by food stamps or \$21,000 for the earned-income tax credit (EITC), based on our calculations.

On the issue of the effect on employment, our key concern is with widely touted calculations that were part of a [2019 National Academies of Sciences, Engineering and Medicine report](#) analyzing the economic impact of a number of anti-poverty programs, including the child tax credit and the EITC. The National Academies report estimated that replacing the child tax credit with a child allowance would have little negative effect on employment.

This is simply not accurate. The conclusions drawn by the National Academies report were based on calculations that did not account for eliminating existing child tax credit work incentives. That was surprising because the study did account for similar incentives when studying an expansion of the EITC — and the two programs serve similar populations.

The old child tax credit incentivized work; the expanded one would effectively discourage it. For example, a typical working parent with two children would no longer get a \$4,000 boost from the tax credit as a result from working. The parent would receive at least \$6,000 under the expanded credit whether or not they were employed. As a consequence, we estimate, 1.5 million workers (constituting 2.6 percent of all working parents) would ultimately exit the labor force, mostly at the lower end of the income scale.

This decline in employment with its resulting lost earnings would mean that child poverty would fall by 22 percent or less and deep child poverty would not fall at all.

That is a far cry from the 34 percent reduction in child poverty and 39 percent reduction in deep child poverty we estimate in a comparison analysis that ignores work incentives.

Another factor being overlooked is cost relative to overall program impact. The expansion of the child tax credit would cost an additional \$100 billion per year, more than we spend on any existing nonmedical means-tested program, including food stamps and the EITC.

As a form of government-guaranteed income available to families regardless of need, a large share of additional funds would be spent on families far from the poverty line. It would provide a flat \$6,000 to \$7,200 benefit to American families with two children, and annual incomes as high as \$150,000. That's a big increase from the \$4,000 these families received from the old tax credit. By increasing benefits for high-income families, the child tax credit will end up being less targeted to lower-income families than current means-tested programs.

Expanding the child tax credit would not be a cost-effective way to address poverty. It would lead a substantial number of parents to stop working. Until these basic facts are acknowledged, the policy will overpromise and underdeliver on its bold claims.

---

## MORE FROM OPINIONS

 HAND CURATED

All the news I intend to quit

January 3, 2022

The golden age of public libraries  
dawns again

January 1, 2022

The cybersecurity risk to our water  
supply is real. We need to prepare.

January 3, 2022

**View 3 more stories** 

