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OPINIONREVIEW & OUTLOOK

The Parable of the Child Tax Credit

Democrats hope to expand this bad policy in the lame-duck session.

By The Editorial Board 

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Members of Congress spoke out on renewing the Child Tax Credit and Earned Income Tax Credit during the press conference at the U.S. Capitol on Feb. 8.

PHOTO: WIN MCNAMEE/GETTY IMAGES

Congress is returning to Washington for a lame-duck session, and Democrats think they've found the perfect holiday gift for hard-to-shop-for American voters: Subsidies for children. The left and some Republicans will argue that only childless ghouls could oppose cash for kids, but the tax credit is a parable about good intentions, unintended consequences, and the insatiable entitlement state.

A core Democratic priority in Congress is resurrecting a \$3,000 child tax credit for dependents ages six and up, with a \$600 bonus for younger children. Congress passed such a larger credit for 2021, dressed up as pandemic relief, with half of the benefit paid in monthly checks. By some miracle the payments expired, but Democrats are eager to bring it back, if not this month then in the new Congress.

Scott Hodge nearby lays out the regrettable history of the child tax credit, which he helped propose in the 1990s. The credit was born as a \$500 per-child benefit for middle-income families, but has since degenerated into one more cash transfer payment. The Internal Revenue Service is now another turnstile of the welfare state.

That's because over time Congress made more of the credit "refundable," which means available to those who don't owe federal income taxes. By 2004 the credit was worth \$1,000; those with \$10,000 of earned income could claim a portion of it. Republicans in 2017 doubled the benefit to \$2,000, and this year filers need a mere \$2,500 of income to qualify. The increase to up to \$3,600 eliminated any income requirement, handing out the full benefit as a universal basic income for people with children.

As Mr. Hodge explains, the child tax credit "has become one of the largest federal income-transfer programs" and "one of the leading reasons that more than 40% of all filers pay no income tax." Meanwhile, the top 1% of taxpayers paid more than 38% of individual income taxes in 2019, according to the Tax Foundation. That is fiscally and politically unsustainable.

The child tax credit has also been an engine for higher tax rates. Democrats can raise the top rate on income north of 40% while protecting suburban middle-income voters from the pain thanks to the kid discount. The full Democratic allowance would cost \$1.6 trillion over 10 years, and these credits are an expanding black hole for revenue that could be used to lower taxes for everyone. Think of it as a progressive insurance policy against pro-growth tax policy.

Progressives respond to these critiques by touting the 2021 allowance as a grand achievement that reduced child poverty, citing data out of Columbia University. God bless Bruce Meyer, the University of Chicago economist who has been explaining into the media void that such data is "based on simulations that do not rely on income data from the period in question" and doesn't account for behavior changes such as cutting back on hours at work.

A paper from Mr. Meyer and associates tries to capture a better picture of households and finds "only a small decline in poverty" during monthly child credit checks and "no rise after the elimination of the payments."

The "best evidence, though still imperfect," the paper notes, "suggests poverty was relatively stable in 2021 and the first half of 2022. Part of the explanation for the lack of change appears to be a compensating decline in employment among low-skilled workers with children." In other words, the disincentive to work swamps the benefits. The disincentive would get worse

if the larger allowance became a permanent feature of the entitlement state and not a one-time cash infusion.

Democrats have underestimated American voters, who still think benefits should be paired with work and a path out of dependency. That is one reason the larger credit expired without a political peep. In a December 2021 poll, 51% said the credits probably or definitely shouldn't be permanent.

Low-income voters are always assumed to support cash benefits, but 46% of those earning less than \$50,000 opposed the payments. That may be because Americans understand that poverty in the U.S. is now less about material deprivation and more about idleness, addiction, mental illness and other destructive realities that can't be cured with a bigger check.

Democrats are hoping to lure Republicans into a lame-duck deal to revive the \$3,600 credit in return for some GOP tax priority, but that's a bad political and policy trade. For all the country's problems, American voters still want opportunity and upward mobility more than income redistribution.

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