STATEMENT ON PROPOSED CHILD TAX CREDIT FOR WASHINGTON DC

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I strongly support a proposal to implement a Child Tax Credit (CTC) in Washington DC by $500 per child under the age of 18 and $1000 per child under the age of 6.

This proposed CTC for DC is roughly half the size of the temporary expansion of the federal tax credit that was enacted in 2021 as part of the American Rescue Plan Act. Accordingly, it will generate some, though not all, of the benefits for children associated with that expansion – especially those in families with low incomes.

In particular, the federal CTC expansion reduced child poverty by several points, as measured by the Supplemental Poverty Measure (SPM).[2] Food insecurity and other sources of "toxic stress" among children appeared to decline as well (Ananat et al., 2022; Fenton, 2023). The smaller increase in the CTC in Washington DC would likely generate some, though not all, of the same benefits for children.

Would it also reduce employment among adults?[3] Ananat et al. find no significant reductions associated with the 2021 federal increase, and evidence on the Canada Child Benefit suggests little or no employment loss there among adults. However, since the 2021 increase in the US was only temporary, in a volatile labor market which was recovering from the pandemic; and since effects in the US (and in DC) cannot necessarily be inferred from the Canadian experience – I consider all of this evidence to be suggestive but not definitive predictors of employment responses in the US.

Most economists would predict at least some employment loss from a policy that provides income to families, regardless of their labor force activity, and phases it out at high incomes; but the question is how much. From my reading of the literature, the estimates of labor sensitivity to means-tested benefits of this size suggest work declines (reduced hours or labor force participation) for about 1400 out of 400,000 DC resident workers.

But this estimate of employment decline is likely an upper bound. For workers facing barriers to employment (such as poor skills and work experience, physical/mental health disabilities, or an inability to afford child care and other work-related expenses), employment responses to tax and benefit changes are lower; and employment might actually rise for some, who can now more easily afford work-related expenses (like child care, transportation or clothes). Given these factors, *employment declines might be observed among 1000 or fewer people, if at all.*

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[2]According to the SPM, child poverty rose from 5.2 to 12. 4 percent in 2022, after the CTC expansion and other temporary safety net provisions in the Relief Act expired.

[3] To be clear, increases in tax credits for *earnings*, like an earned income tax credit, are more likely to raise employment than a CTC increase alone.

Comparing the costs and benefits associated with such an increase – with the latter benefitting many or most of the 125,000 children in DC - it is clear to me that the benefits associated with an expanded CTC in DC would outweigh the costs, and lower-income children would be substantially better off as a result of its passage and implementation.

This conclusion is subject to two caveats: 1) The revenue needed to finance the tax credit must be raised in a way that does not reduce the income or employment prospects of DC residents; and 2) While the tax credit no doubt benefits children in the short-term, its impact on their longer-term income mobility has not yet been established in rigorous research (National Academies of Science, 2023), given how recently the federal CTC expansions have occurred and the lack of available data with which to judge their long-term impacts.

But the reductions in toxic stress and food insecurity for children, if they last over time, would likely have such positive long-term benefits; and a combination of a CTC and an EITC increase together could have such positive effects with no resulting loss of employment for parents.

APPENDIX

An expansion of a CTC that is not conditional on having positive employment or earnings could have two negative effects on employment: 1) There could be a negative *income effect* for those receiving the higher income; and 2) There could be an additional *substitution* effect as net earnings decline during the phaseout of the credit as earnings and income rise. The magnitudes of these negative effects will reflect the *income and wage elasticities of labor supply*, which have been estimated in many papers over the years.

Following McClelland and Mok (2012) and Bargain and Peichl (2016), who provide overviews of these research studies, I assume the following:

An income elasticity of labor supply = -.05 to -.10; and
An own-wage elasticity of .2 to .3 for single or two-parent households.

The income elasticity applies to anyone receiving the benefit, while the wage elasticity applies only to those for whom the credit phases out, between $100-125,000 for single filers and $145-175,000 for joint filing households.

The elasticities apply to increases in income and decreases in net wages, measured in percent terms. With the proposed increases, incomes would rise by $500-3000 for families with 1-3 children, depending on their ages, or under $2000 on average. Overall:

- For low-income families – those with incomes under $40,000, and with median incomes around $20,000 – the expanded CTC would raise income by about 10% and lower employment by .5-1 percent.
- For those with median household incomes in DC of about $100,000, income would rise by 2 percent and employment might decline by .1-.2 percent;

- For those in the phaseout range, incomes would rise by 2% or less and wages would decline by a similar amount, given that the proposed credit would decline by $20 for each extra $1000 of income, causing employment declines of perhaps .5 percent for people in this range; and
- It would have no effect on households with incomes above $125,000 for individuals and $175,000 for two parents.

Taking an unweighted average of these declines generates an estimate of .35 percent of workers; of the 400,000 workers who are residents of DC, the figure implies likely employment declines (of either reduced hours or reduced employment rates) for roughly 1400 workers.

But this estimate is likely an upper bound to the true loss; since many lower-income households experience barriers to employment that limit their employment regardless of taxes and benefits. For some, employment will rise, if they can now more easily meet work-related expenses.

Overall, some employment declines might occur for 1000 or fewer workers, split between lower hours and lower employment, if at all. In contrast, many or most of the roughly 125,000 children in DC under the age of 18 could be better off, especially those in lower-income households.

REFERENCES

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