

Tax Policy for Low-Income Americans
Friday, August 27, 2021

Session 1: New Research on the EITC

Comments by:

Hilary Hoynes

University of California, Berkeley

BLOCKBUSTER papers AND so nicely linked together!

Long-Run Effects of Incentivizing Work After Childbirth

Elira Kuka
George Washington University,
IZA, and NBER

Na'ama Shenhav*
Dartmouth College
and NBER

The EITC and Maternal Time Use: More Time Working and Less Time with Kids?*

Jacob Bastian and Lance Lochner

TOTS AND TEENS: HOW DOES CHILD'S AGE INFLUENCE MATERNAL LABOR SUPPLY AND CHILD CARE RESPONSE TO THE EARNED INCOME TAX CREDIT?

August 2020

Katherine Michelmore¹
*Maxwell School of Citizenship and Public Affairs
Syracuse University*

Natasha Pilkauskas
*Gerald R. Ford School of Public Policy
University of Michigan*



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Context: EITC is central part of social safety net for children; largest anti-poverty effects

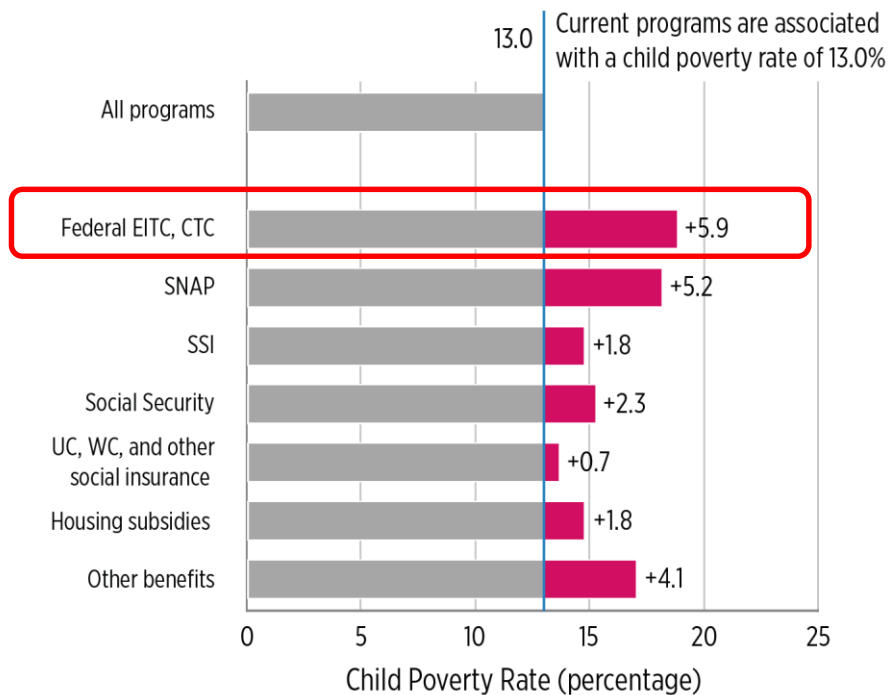
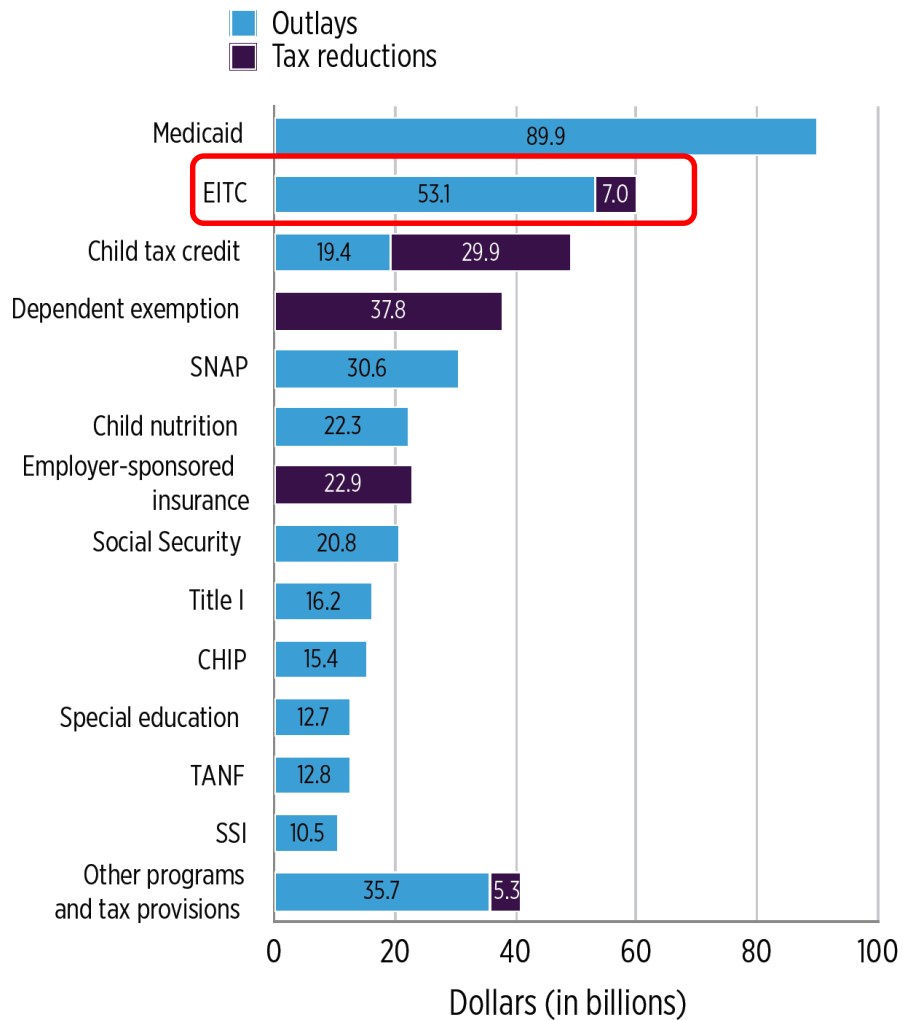


FIGURE 4-9 “What-if” child poverty rates with the elimination of selected federal programs.

FIGURE 4-8 Value of federal spending outlays and tax reductions with the highest expenditures on children, 2017 (in billions of dollars).

Source: Roadmap for Reducing Child Poverty (NASEM 2019)

Context: Research Findings

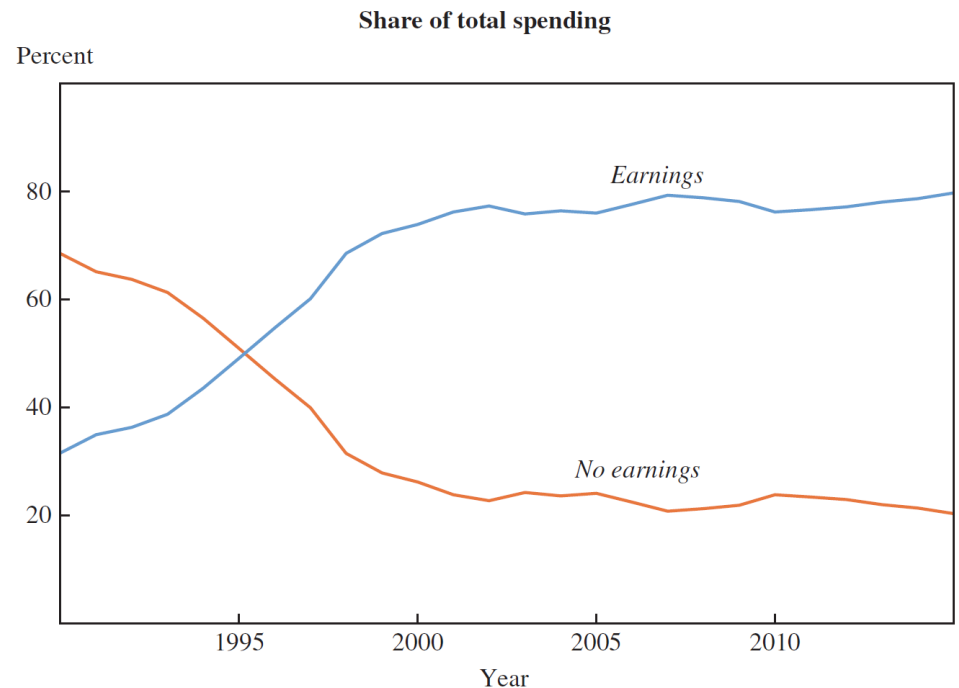
- Unmarried mothers employment increases
- Poverty reduction achieved with credit effect and labor supply response
- Long term benefits for children (health, education, economic wellbeing)
 - Some evidence that larger effects for children exposed later in childhood

Context: Policy Landscape

Welfare reform and the rise of the EITC transformed the social safety net to condition on work

1. Does this pro-work approach lead women to enter escalator to labor market improvements? (Elira and Na'ama)
2. How does a pro-work approach affect children and parents' investments? (Jacob and Lance)
3. How does this affect women with younger vs older children, esp around child care? (Katherine and Natasha)

Figure 8. Government Spending on Children, by Parental Earnings, 1990–2015^a



Source: Hoynes and Schanzenbach (2018)

Comments: Bastian and Lochner on Time Use

What they find:

[focus on unmarried women]

Confirm findings that EITC increases work (new, using time use data)

EITC increase leads to reduction in *leisure* (spent with children)

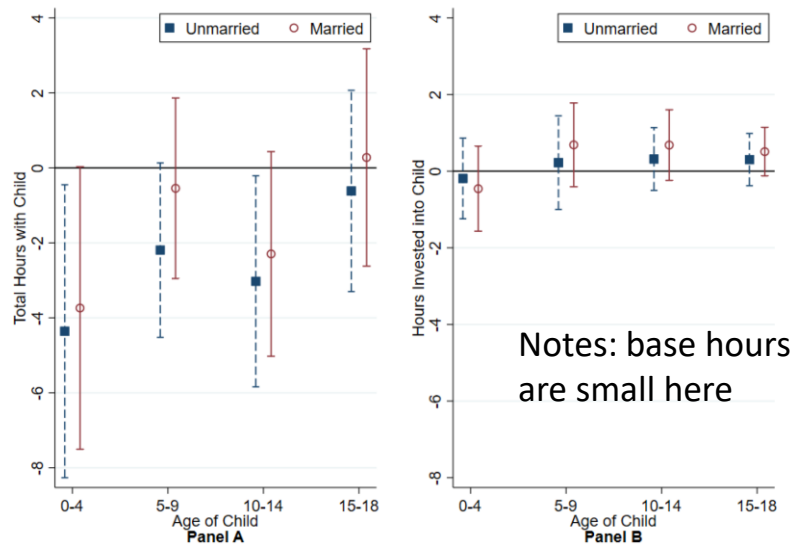
Little change in time in *child investment* (maybe a decline in child health investment)

Why is this important?

We know that the EITC improves LR outcomes for children

But what is the mechanism?

Two channels (or more): income and maternal employment increase >> these findings give insight into what happens when work increases



What questions remain?

I would love to have the time use *from the KIDS perspective*

Maternal investments don't change (or decrease) but what about "total" investments including child care? (\$ can buy this too)

Following Kline and Walters, counterfactual care setting may matter.

Comments: Michelmore & Pilkauskas on Age of Child

What they find:

[focus on unmarried women]

Confirm findings that EITC increases work

Significantly larger effects for women with child<3: 2X the employment effect and 5X the poverty reduction

Childcare use increases for child<3 (informal care & center care)

Why is this important?

Another mechanism for LR outcomes has to do with what happens when moms go to work

Establishing how empl effects vary with child age is important.

Knowing how child care responds is important for child dev and family net income

Table 6. Effect of the EITC on maternal labor force outcomes and child care arrangements, by age of the youngest child

	Aged 0-2	Aged 3-5	Aged 6-12
<i>Employment</i>			
Worked last week	0.246 (0.095)	-0.019 (0.102)	-0.009 (0.08)
Worked last week (CPS)	0.023 (0.017)	0.008 (0.019)	0.005 (0.018)
<i>Use and time spent in child care</i>			
Any child care	0.228 (0.06)	-0.03 (0.072)	-0.116 (0.082)
Total hours	9.487 (2.644)	-3.624 (4.393)	0.214 (3.148)

What questions remain?

Inconsistency between SIPP and CPS

Following Kline and Walters, counterfactual care setting may matter.

How does change in child care use affect EITCs bottom line impact on family net income?

Comments: Kuka and Shenhav on Dynamic Effects

What they find:

[focus on never married women]

Confirm findings that EITC increases work

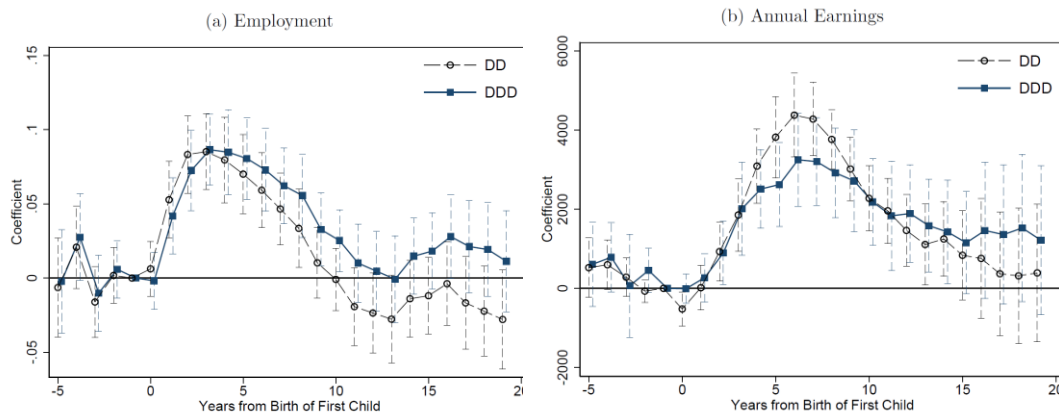
Those exposed to EITC “early” (post-first birth) compared to “late” have higher empl for ~10 yrs. They have higher earnings that are sustained in the long run (15+ yrs)

Why is this important?

While those exposed later (post first birth) “catch up” in terms of empl, the gains in earnings in the long run for those exposed early suggest GAINS to experience

→ Pro-work safety net can yield larger long run benefits by ↑ empl

Figure 4: Effect of Early Work Incentives on Long-Run Outcomes



What questions remain?

What to make of the magnitudes?
Are the gains in earnings “large enough” to make up for lack of insurance against no work?

It would be good to explore further your participation elasticities (lower end of lit)
Sample? Measurement? Model?