Discussion of Corinth et al.'s "The Anti-Poverty, Targeting, and Labor Supply Effects of Replacing a Child Tax Credit with a Child Allowance"

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2022 FCSM Research & Policy Conference

Contribution

The paper analyzes a range of implications of replacing the Child Tax Credit with a tax allowance

- It estimates that it would lead to a large reduction in child poverty rates (over 20% after the labor supply response is taken into account) but not of deep child poverty
- It would reduce employment by 1.5M, because the CTC is basically a partially non-refundable EITC
- The incidence of the child allowance would not be very progressive (though the same is true for the CTC)

I will mostly focus on the labor supply response estimates, the most controversial part of the paper.

Participation Elasticities

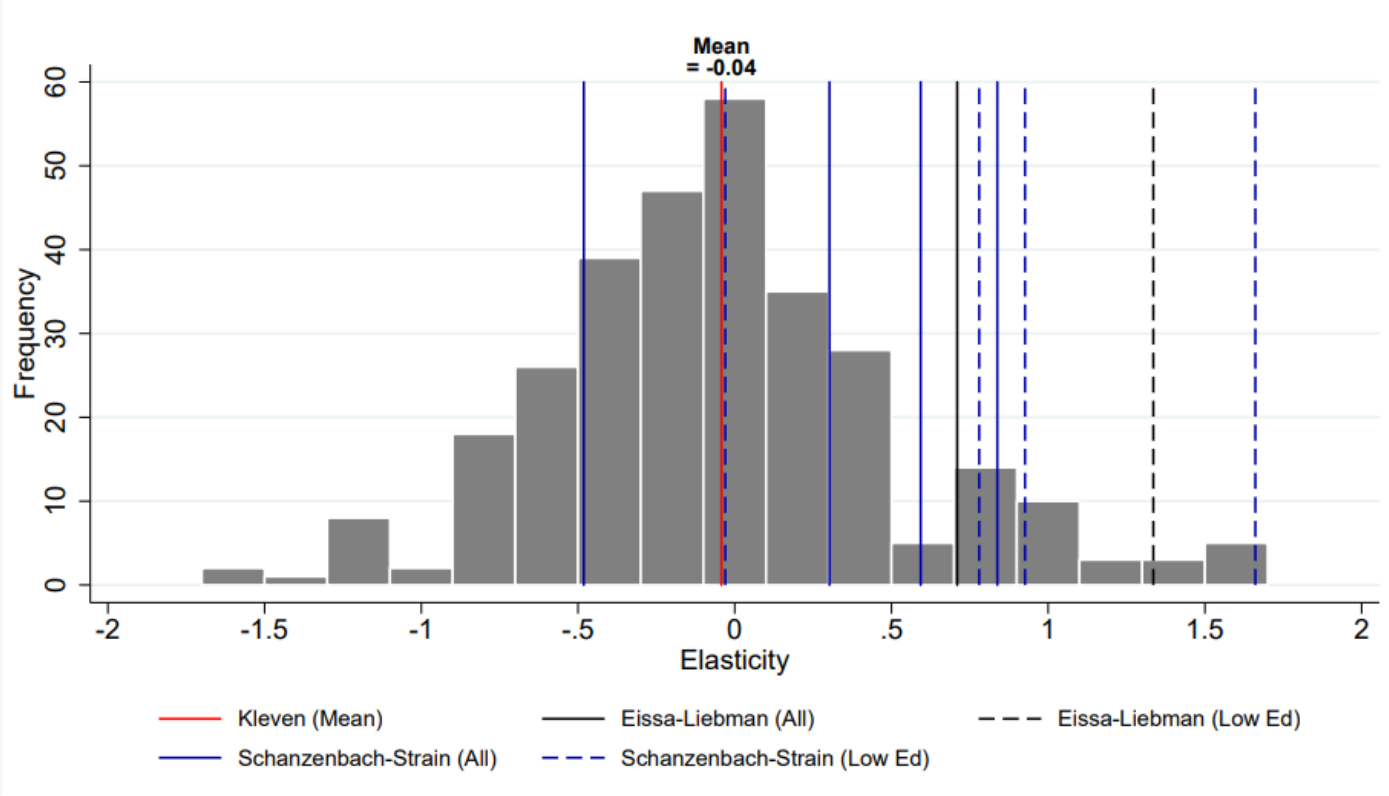
- Do Hoynes and Patel refuse to explain how they calculate their elasticities? Remarkable.
- Is a participation elasticity that does not vary with income plausible? Schanzenbach and Strain (2020) find a decreasing elasticity, and so do Eissa and Liebman (1996).
- Certainly at the household level – so not just for secondary earners – it seems completely implausible we would see extensive margin variation effects in the middle class and beyond. In fact Lippold (2022) finds zero elasticities for AGI over $30,000.

Participation Elasticities

- How do we distinguish between participation and reporting taxable income to receive refundable tax credits? (Perhaps most important for deep poverty.)
- Why does scaling up Keane and Moffitt (1998) and Schanzenbach and Strain (2020) elasticities not run into precisely the identification issues they would have run into had they used actual EITC receipt?
- Kleven (2022) argues that the elasticities used here for EITC beneficiaries (>2/3 of the estimated number of workers leaving the labor force) are outliers. Lippold (2022) appears to agree with that assessment.

Kleven (2022) Elasticities

FIGURE 10: DISTRIBUTION OF ELASTICITY ESTIMATES ACROSS SPECIFICATIONS VS PRIOR ESTIMATES



Policy Evaluation

- This literature is not always very enthused about *u(c,l)* with *du/dc>0* and *du/dl>0.* How negative should tax rates be?
- Clear difference between current law and current policy: TCJA CTC expansion is set to expire in two years. How would this affect the estimates?
- I don't think the implicit marginal tax rates associated with AFDC are comparable to those associated with the child allowance.

Discussion of Kye Lippold's "The Effects of the Child Tax Credit on Labor Supply"

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2022 FCSM Research & Policy Conference

Summary

- The paper uses a difference-in-discontinuities design to identify the effect of the CTC on the extensive margin of parental labor supply
  - Parents lose eligibility when a child turns 17
- Among low-income households, loss of the credit reduced the likelihood of employment by 8.4 percentage points
  - Household income below $20,000
  - Years covered: 2001-2016
- The paper suggests a 0.43 steady state elasticity of employment with respect to the return to work
- Extremely clear throughout

Background and Theory

- I'm not proud of it but I would like to propose a reorganization of the paper
- Section 2 and subsections 3.1 and 3.2 (p. 4-18) contain a detailed overview of program parameters and a lengthy discussion of the existing literature (both empirics and theory) that I would merge and shorten
- The key contribution of the theory section is to show how elasticities of the extensive margin of labor supply with respect to transitory and steady-state tax changes differ
- This (valuable) theoretical exercise does not feed into the empirical exercise directly, but fits nicely with subsection 5.4, where the elasticity estimates are interpreted – I would combine subsections 3.3 and 5.4 and Appendix B into a new Section 5: Interpretation and Discussion

Empirics

- The paper generally limits its sample to households with an AGI of $0-$20,000 and uses households >$30,000 for a placebo test
  - Precise zero elasticity estimate from the placebo test
- CTC serves to incentivize entry more than to deter exit
  - A useful extension may be to think through social welfare implications
  - Can you say anything about the fate of the children in the somewhat longer run, perhaps using administrative data?
  - How sticky is labor force participation?

Discussion of Larrimore, Mortenson, and Splinter's "Unemployment Insurance in Survey and Administrative Data"

Stan Veuger, American Enterprise Institute

2022 FCSM Research & Policy Conference

Motivation & Summary

Unemployment insurance was a key component of the economic policy response to COVID-19

The CPS does not fully capture COVID-era UI benefit receipt as reflected in IRS data

As a result, official 2020 poverty rates were overstated by two percentage points

Additionally, the UI tax exclusion is less progressive than UI benefits

CPS Underreporting & Poverty

- Complete 1099-G information
- Dramatically different picture of 2020 UI receipt
  + 45.4M recipients v. 23.6M
  + $565B in benefits v. $218B
- Notable differences with previous CPS underreporting
  + Underreporting on the intensive margin
  + Highly disproportionate underreporting for low-income households
- Corrected 2020 poverty rate is 9.6% instead of 10.4%

CPS Underreporting & Poverty

Based on UI spending numbers, how well could one infer these adjustments in real time by extrapolating from the CPS?

Did we ever clarify how much UI fraud there was? Can it explain part of the CPS-tax gap?

- Naturally (and by design?) very regressive
- Limited implications for poverty measurement
  + Paper could make clearer this is why it broaches the topic to begin with
- Could the tax treatment of UI benefits serve to help optimize replacement rates?
  + Major issue in the crisis response content
  + Progress at the state level on this front appears limited

2020 Tax Exclusion for UI Benefits

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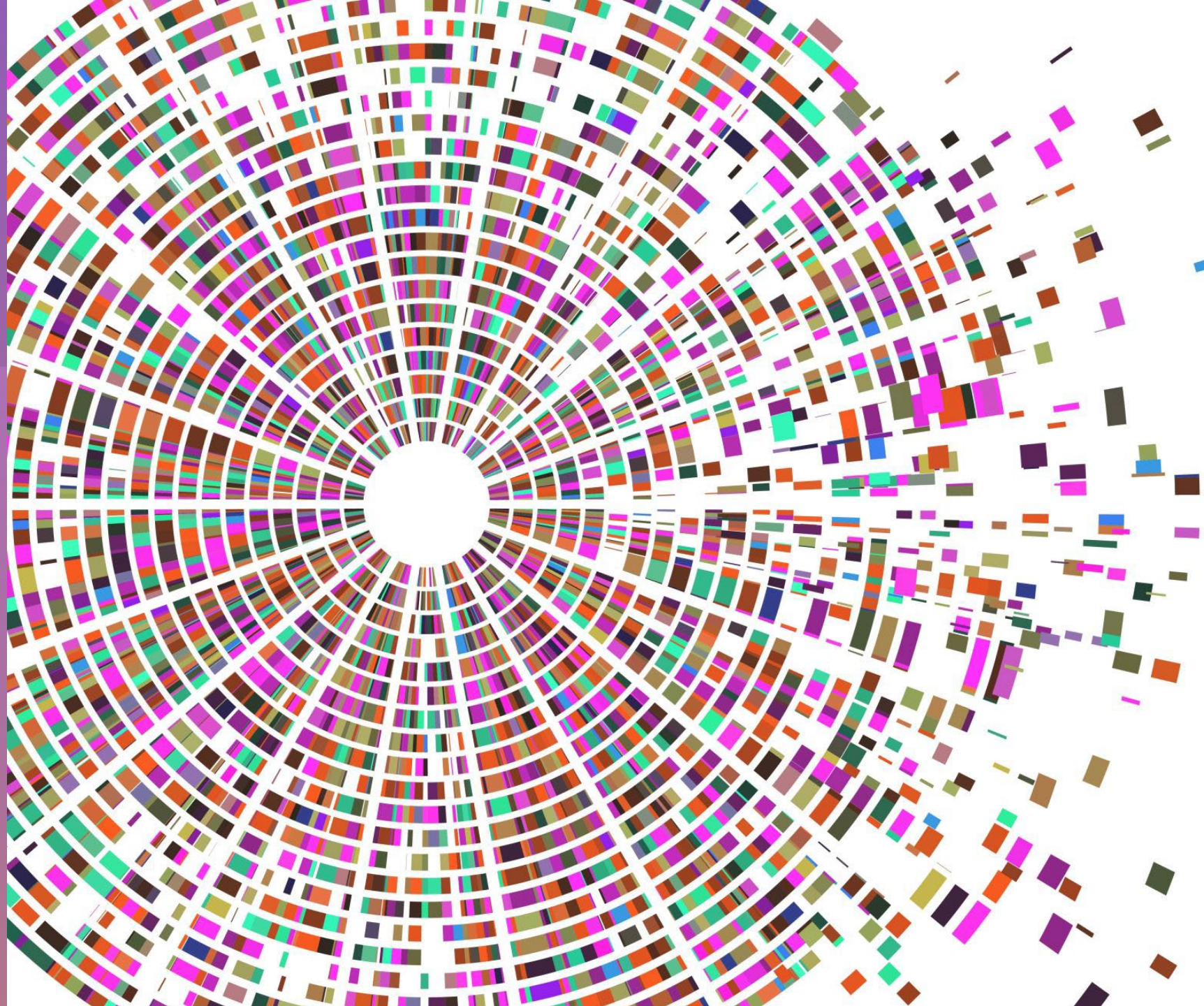
DISCUSSION OF MICHAEL DALTON'S "PUTTING THE PAYCHECK PROTECTION PROGRAM INTO PERSPECTIVE: AN ANALYSIS USING ADMINISTRATIVE AND SURVEY DATA"



SUMMARY

The paper analyzes the effects of the PPP program

Links PPP loan data to the QCEW

It finds effects on employment, wages, and opening status of establishments after 7 months

Key estimate is $20K-34K per employee-month retained (or wage bill preserved is 24% of spending)

Largest impact for small and low-wage establishments

PARTICIPATION ESTIMATES

- Around 50% of eligible establishments/employment take up PPP
  - Adjustments get this number close to Census Pulse estimates
- Reassuring: high take-up in retail
- Perhaps concerning: low take-up in leisure and hospitality sector
  - Though high take-up in food preparation occupation
  - And reassuring pre-trends, though these are less meaningful in the pandemic context

IDENTIFICATION

Paper addresses concerns around heterogeneous effects with “modern” dynamic DiD techniques

This does not of course deal with omitted-variable bias issues: why did some firms apply for PPP while others did not?

Employment estimates with controls exceed those without controls – how should we think of this? Is the real action taking places in the interaction with the pandemic as opposed to through observables? Something like granular within-metro location?

RESULTS

- Are events beyond 10 weeks necessarily the results of PPP smoothing?
    - Key program justification from an economic viewpoints was supply side preservation (firm-specific human capital, sure, but also intangible capital and entrepreneur solvency)
- CES validation exercise suggests employees were typically working
    - Important for incidence questions?
- Fantastic reconciliation with Autor et al. (2020), Chetty et al. (2020), and Hubbard and Strain (2020) that explains differences and shows current paper's estimates are (much) more comprehensive
- General-equilibrium effects are key for policy evaluation but hard to get at with micro techniques