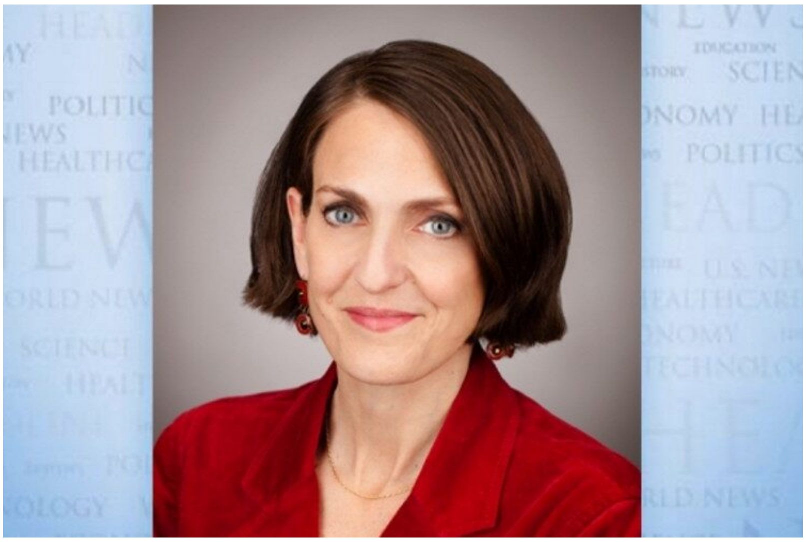
Will This Year's Lame-duck Session Bring Back a Bad Idea?



Veronique de Rugy

Democrats have lost the House of Representatives and, along with it, the chance to pass more of their preferred policies in 2023. This makes the "lame duck" period before the January arrival of the new Congress their last opportunity to fully control Capitol Hill for a while. It's also a chance for outgoing legislators from either party to pretty much do as they please. My fear is that the outgoing majority will, with the help of some misguided Republicans, push for a disastrous expansion of the child tax credit.

Such a measure would revive the expanded credit passed by Congress in the American Rescue Plan of 2021, under the cover of the pandemic. Thankfully it expired before being made permanent. But Democrats have expressed their intentions to prioritize bringing back the policy, which would give a $3,000 child tax credit for dependents ages 6 and up and a $600 bonus for younger children.

The credit allowance would be fully refundable to those who pay no income tax, meaning that someone who earned $0 last year could receive as much as $9,600 for two children and a toddler, with part of it paid monthly by the Internal Revenue Service. The cost would be enormous — probably around $1.6 trillion over 10 years. That's not due merely to the dollar amount of the credit, but also to the fact that most parents with children, even very rich ones, would be eligible for a significant portion of it.

Among the unfortunate consequences would be that it would kick even more people off the tax roll, thus raising the question of how sustainable an income-tax system can be if most people don't pay such taxes. But the biggest problem resides in the fact that by causing people to leave the workforce and reduce work effort, capital investment would be discouraged, ultimately further slowing economic growth. With fewer new ventures, fewer workers and fewer related investments, less wealth is created. The result in the long run would likely be an increase in child poverty.

These problems are not unique to the extended child tax credit. In fact, the child tax credit itself has mostly been a failure since its inception in 1997. It has consistently failed to deliver on its promise of reducing child poverty. None of the many expansions since then have succeeded, either.

In a recent piece for the *Wall Street Journal*, economist Scott Hodge described how the whole debacle began as a result of his floating the idea of a child tax credit in 1993. He writes, "The 'put money in people's pockets' approach of the child tax credit might have been good politics, but 25 years' experience shows it was bad policy."

A massive expansion of the credit, along with the lack of work requirements and the cash payments, would add significantly to the problem. In fact, most studies that forecast a significant reduction in child poverty due to the expanded version do not account for the many potential short-term work disincentives embedded in it.

As the American Enterprise Institutes' Scott Winship explained a few months ago, these studies also do not model "short-term incentives that would be expected to increase the share of children living with single parents, nor any long-term incentives on work, living arrangements, marriage, or fertility that might be expected to work against poverty reduction even more. It does not examine the potentially negative impact of the expanded CTC on other outcomes, such as intergenerational mobility."

Studies that do take all of this and more under account are sounding an alarm that legislators seem eager to ignore. For instance, economists from the University of Chicago found that the expanded credit could drive 1.5 million workers, or 2.6% of all working parents, out of the labor force. This would in turn swamp the impact of putting money in these parents' pockets and explain why the authors also find a small reduction in child poverty from the credit but no impact at all on deep child poverty.

Democrats are likely hoping to get willing Republicans to go along their plans during the lame-duck session. I hope legislators will realize that the changes could also reduce income mobility, with all the known ill consequences for children. After the welfare reform of the 1990s, increased employment among low-income parents has driven much of the long-term declines in child poverty. It would be a shame to see some of that undone.

Veronique de Rugy is the George Gibbs Chair in Political Economy and a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.