

April 14, 2022

Child Tax Credit Has a Critical Role in Helping Families Maintain Economic Stability

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Economic assistance programs are key to helping provide individuals and families with income stability, with benefits accruing not just to the families receiving assistance but to the economy as a whole. The Child Tax Credit, especially when received monthly, has an important role to play in addressing the income volatility that many families face. Over a three-year span more than 1 in every 3 households with children — and about 1 in 2 such Black and Latino households — reported a major hardship such as inability to afford adequate food, shelter, or utilities.¹ These and other effects of income insecurity have been shown to hinder childrens' educational, health and future economic outcomes.² Large income fluctuations within and between years are common for U.S. families, and especially so for those with low incomes, which often causes severe consequences.³

Key Findings

- Economic assistance programs are key to helping provide income stability to individuals and families.
- Income instability is common among all families, but is disproportionately felt by Black families, workers with fewer educational credentials, and families headed by unmarried workers.
- An expanded, monthly and fully refundable Child Tax Credit would mean greater stability for families, reductions in poverty and hardship, and benefits for children's educational and health outcomes and long-term earnings potential.
- Families with low incomes largely use economic benefits like the Child Tax Credit as a complement to, not a substitute for, earnings from low-wage work.
- Different economic and health security programs have different strengths and purposes; strengthening both the Child Tax Credit and Temporary Assistance for Needy Families would help close harmful gaps.

¹ Arloc Sherman *et al.*, Widespread Economic Insecurity Pre-Pandemic Shows Need for Strong Recovery Package. CBPP, July 14, 2021, <https://www.cbpp.org/research/poverty-and-inequality/widespread-economic-insecurity-pre-pandemic-shows-need-for-strong>.

² Arloc Sherman *et al.*, "Recovery Proposals Adopt Proven Approaches to Reducing Poverty, Increasing Social Mobility," CBPP, August 5, 2021, <https://www.cbpp.org/research/poverty-and-inequality/recovery-proposals-adopt-proven-approaches-to-reducing-poverty>.

³ M.R. Rank, L.M. Eppard, and H.E. Bullock, *Poorly Understood: What America Gets Wrong about Poverty*, Oxford University Press, 2021; J. LaBriola, D. Schneider, "Worker Power and Class Polarization in Intra-Year Work Hour Volatility," *Social Forces*, Vol. 98, No. 3, 2020, pp. 973-999.

There's a clear socioeconomic aspect to labor market volatility: workers with fewer educational credentials, Black families, families headed by unmarried workers, and people with lower income levels are exposed to greater risk of joblessness and fluctuations in work hours and income.⁴ That Black families have disproportionately experienced this instability, historically and during the COVID-19 pandemic, reflects long-standing political isolation alongside social and economic inequality and exclusion.⁵ In addition, the changing nature of work in the U.S. — for example the decline of manufacturing jobs due to automation and the rise of contingent work arrangements and contract work — have created a riskier labor market situation for many workers.⁶

Planning around low and unstable income is often difficult, as many families facing these conditions also have high debt and low savings. They typically struggle to respond to unanticipated events that increase their costs or reduce their income. This can cause them material harm, especially in cases when economic assistance programs are unavailable or have been set at inadequate levels, as is often the case with Temporary Assistance for Needy Families (TANF).⁷ Many families turn to risky financial products, including high-interest credit cards and payday, consumer installment, and auto title loans. Some struggle to meet relatively modest, unexpected expenses, leading to even more extreme measures, including selling blood and plasma.⁸

This paper reviews the role of the nation's economic assistance programs as a backstop to the risks associated with unpredictable income, low income, and joblessness, and it identifies the important role of an expanded Child Tax Credit, which provided families with a monthly cash payment between July and December 2021. Consistent evidence shows that families with low incomes generally package receipt of public benefits with work; that is, they use the programs as a complement to, not a substitute for, work.⁹ Low-income work alone is often not sufficient for families to make ends meet, especially when earnings are volatile, making income assistance programs crucial. This was especially evident during the pandemic-induced economic crisis, when significant, temporary infusions of cash and cash-like benefits helped drive historic poverty level reductions.

⁴ J.P. Ziliak, B. Hardy, and C. Bollinger, "Earnings volatility in America: Evidence from matched CPS," *Labour Economics*, Vol. 18, No. 6, 2011, pp. 742-754.

⁵ J.A. Williams, T.D. Logan, and B.L. Hardy, "The persistence of historical racial violence and political suppression: Implications for contemporary regional inequality," *ANNALS of the American Academy of Political and Social Science*, Vol. 694, No. 1, 2021, pp. 92-107.

⁶ J. Hacker, "The Great Risk Shift," in *Inequality in the 21st Century*, Routledge, 2018, pp. 260-261. B. Hardy, "Income Instability and the Response of the Safety Net," *Contemporary Economic Policy*, Vol. 35, No. 2, May 6, 2020, pp. 2312-330.

⁷ CBPP, "Policy Basics: Temporary Assistance for Needy Families," updated March 1, 2022, <https://www.cbpp.org/research/family-income-support/temporary-assistance-for-needy-families>.

⁸ K. Edwards and B. Hardy, "Cash Remains King," in *The Future of Building Wealth: Brief Essays on the Best Ideas to Build Wealth — for Everyone*, Ray Boshara and Ida Rademacher, eds, 2021, <https://www.aspeninstitute.org/wp-content/uploads/2021/10/the-future-of-building-wealth.pdf>.

⁹ B. Hardy, T. Smeeding, and J.P. Ziliak, "The changing safety net for low-income parents and their children: Structural or cyclical changes in income support policy?" *Demography*, Vol. 55, No. 1, 2018, pp. 189-221.

Researchers estimate that among families with a single parent and low income,¹⁰ \$1,000 in potential cash and food benefits reduce the incidence of food insecurity by 1.1 percentage points from a baseline level of food insecurity of 33 percent. They also find that higher cash and food benefits are associated with reductions in severe psychological distress of single mothers.¹¹

Enhancements to the Child Tax Credit in 2021, including those making half of it available as advance monthly payments and extending the full credit to families with low or no incomes in the year, were especially important to families with low and unpredictable incomes. In December 2021 the Treasury Department issued a monthly Child Tax Credit payment to 61.2 million children — the vast majority of eligible children — which was estimated to keep 3.7 million children out of poverty and reduce the monthly child poverty rate by 29 percent.¹²

An expanded, monthly, and fully refundable Child Tax Credit would yield long-term reductions in poverty and hardship. The National Academies of Science, Engineering, and Medicine’s 2019 report on reducing child poverty found that, out of ten policy options, a child allowance similar to the expanded Child Tax Credit would be the single most effective policy for reducing child poverty.¹³ This is consistent with a large body of evidence showing that economic assistance programs reduce major disruptions in the form of poverty, income volatility, and food insecurity.¹⁴ Indeed, surveys show that families with low incomes overwhelmingly used the monthly Child Tax Credit payments on necessities such as food, rent, clothing and utilities.¹⁵ And because economic security programs help prevent disruptions to childhood development — when even short disruptions can harm children’s long-term outcomes — they are linked with better economic and health outcomes in adulthood.¹⁶

¹⁰ The families studied were also U.S. citizens.

¹¹ Lucie Schmidt, Lara Shore-Sheppard, and Tara Watson, “Safety Net Program Interactions and Impacts on Low-Income Families,” *Reporter*, No. 4, December 2021, <https://www.nber.org/reporter/2021number4/safety-net-program-interactions-and-impacts-low-income-families>.

¹² Zachary Parolin, Sophie Collyer, and Megan A. Curran, “Sixth Child Tax Credit Payment Kept 3.7 Million Children Out of Poverty in December: Child poverty set to spike in January 2022 after expiration of monthly payments,” Columbia University Poverty and Social Brief, Vol. 6, No. 1, January 18, 2022, <https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/61ea09926280d03df62aa31d/1642727841927/Monthly-poverty-December-2021-CPSP.pdf>. Treasury Department, “By State: Advance Child Tax Credit Payments Distributed in December 2021,” December 15, 2021, <https://home.treasury.gov/system/files/131/Advance-CTC-Payments-Disbursed-December-2021-by-State-12152021.pdf>. Note that monthly and annual poverty-reduction calculations differ. The estimated monthly poverty impact of the expanded Child Tax Credit, for instance, does not include the lump-sum payments received at tax time, so monthly poverty reductions understate the eventual full-year effect of the credit.

¹³ National Academies of Sciences, Engineering, and Medicine, “Ten Policy and Program Approaches to Reducing Child Poverty,” *A Roadmap to Reducing Child Poverty*, The National Academies Press, 2019.

¹⁴ Sherman *et al.*, August 2021.

¹⁵ Center on Poverty and Social Policy at Columbia University, “What we know from the first 6 months of the expanded Child Tax Credit,” December 23, 2021, <https://www.povertycenter.columbia.edu/news-internal/2021/child-tax-credit-research-roundup>.

¹⁶ Claire Zippel and Arloc Sherman, “Bolstering Family Income Is Essential to Helping Children Emerge Successfully From the Current Crisis,” CBPP, updated February 25, 2021, <https://www.cbpp.org/research/poverty-and-inequality/bolstering-family-income-is-essential-to-helping-children-emerge>.

Long-Term Benefits of Income Support

Together, a package of programs provide support for families experiencing economic hardship to meet their basic needs. They include cash benefit programs such as the Earned Income Tax Credit (EITC), the Child Tax Credit, and TANF, along with cash-like programs such as the Supplemental Nutrition Assistance Program (SNAP), housing assistance, and Medicaid. These programs protect against exposure to economic insecurity, which has been shown to harm long-term economic, educational, health and mental health outcomes.¹⁷

Bioecological models of child development underscore the importance of stable relationships and environmental contexts.¹⁸ Interruptions to stability, including events that lead to reductions in economic resources or unanticipated expenses, affect children both directly and indirectly, the latter due partly to stress that parents and other caregivers experience when they do not have enough resources to meet their basic needs.¹⁹ The intense stress associated with meeting a family's urgent economic needs can preoccupy and cause distress among parents or other caregivers, leading to high levels of stress among the household's children which, in turn, raises the chances of behavioral problems and poorer health.²⁰

Income support and near-cash assistance programs, meanwhile, have been linked to improved educational, income, socio-emotional, and health outcomes in adulthood,²¹ as well as reduced contact with both the criminal justice and child protective services systems.²² The EITC, for

¹⁷ Claire Zippel and Arloc Sherman, "Policy Brief: Bolstering Family Income Essential to Help Children Emerge From Current Crisis," CBPP, updated February 25, 2021, <https://www.cbpp.org/research/poverty-and-inequality/bolstering-family-income-essential-to-help-children-emerge-from>.

¹⁸ R.D. Conger *et al.*, "Economic stress, coercive family process, and developmental problems of adolescents," *Child Development*, Vol. 65, No. 2, 1994, pp. 541-561; B. Hardy, H.D. Hill, and J. Romich, "Strengthening social programs to promote economic stability during childhood," *Social Policy Report*, Vol. 32, No. 2, 2019, pp. 1-36.

¹⁹ Carrie Masten, Joan Lombardi, and Philip Fisher, "Helping Families Meet Basic Needs Enables Parents to Promote Children's Healthy Growth, Development," CBPP and Rapid-EC, October 28, 2021, <https://www.cbpp.org/research/poverty-and-inequality/helping-families-meet-basic-needs-enables-parents-to-promote>.

²⁰ S. Cheng *et al.*, "Precarious childhoods: Childhood family income volatility and mental health in early adulthood," *Social Forces*, Vol. 99, No. 2, 2020, pp. 672-699; Hardy, Hill, and Romich; L.A. Gennetian *et al.*, "Intrayear household income dynamics and adolescent school behavior," *Demography*, Vol. 52, 2015, pp. 455-483; B.L. Hardy, "Childhood income volatility and adult outcomes," *Demography*, Vol. 51, 2014, pp. 1641-1665; D. Schneider and K. Harknett, "Consequences of routine work-schedule instability for worker health and well-being," *American Sociological Review*, Vol. 84, No. 1, 2019, pp. 82-114; Zippel and Sherman.

²¹ J. Rothstein and N. Wozny, "Permanent income and the black-white test score gap," *Journal of Human Resources*, Vol. 48, No. 3, 2013, pp. 510-544; G.B. Dahl and L. Lochner, "The impact of family income on child achievement: Evidence from the earned income tax credit," *American Economic Review*, Vol. 102, No. 5, 2012, pp. 1927-56; H. Hoynes, D.W. Schanzenbach, and D. Almond, "Long-run impacts of childhood access to the safety net," *American Economic Review*, Vol. 106, No. 4, 2016, pp. 903-34; Hardy, Hill, and Romich; R. Akee *et al.*, "How does household income affect child personality traits and behaviors?" *American Economic Review*, Vol. 108, No. 3, 2018, pp. 775-827.

²² I. Garfinkel *et al.*, "The Costs and Benefits of a Child Allowance," Columbia University Poverty and Social Policy Brief, Vol. 5, No. 1, February 23, 2021, <https://static1.squarespace.com/static/610831a16c95260dbd68934a/t/6115326382b0453ebdf59d26/1628779108059/Child-Allowance-CBA-brief-CPS-2021.pdf>.

example, has been shown to promote work participation and improve child development outcomes,²³ including reductions in racial disparities in birthweight.²⁴

Temporary, pandemic-driven expansions in income support policy, including economic stimulus payments and expansions to SNAP benefits, the Child Tax Credit, and the EITC, have played a critical role in moderating the negative consequences of historically high levels of job loss and economic insecurity. Researchers project the annual poverty rate for children in 2021, after accounting for federal and state policies to address the pandemic, was 8.3 percent, 42 percent lower than the official poverty rate for 2019. They project child poverty in 2021 was cut by 56 percent compared to what the rate would have been without federal and state initiatives. The 2021 poverty reduction was larger among non-Hispanic Black, Hispanic, and American Indian and Alaska Native (AIAN) people, relative to all people.²⁵

Policymakers can sustain much of the progress on poverty reduction by enacting an expanded, monthly and fully “refundable” Child Tax Credit, alongside enhancements to the EITC. The poverty reductions in 2021 derive mainly from having made the Child Tax Credit fully refundable, that is, making the full value of the credit available to families with low or no incomes on the year, as well as by having increased the maximum credit from \$2,000 per child to \$3,000, and to \$3,600 for children below age 6. Another important feature of the program was its monthly payment schedule, providing smaller, predictable cash infusions to families. This reduces hardship and buffers against income and expense volatility that occurs throughout the year.

Poverty reductions from an expanded Child Tax Credit would likely be greater for Black, Latino, and AIAN children. Prior to the American Rescue Plan, 27 million children received less than the full Child Tax Credit or no credit at all because their families’ incomes were too low. That included roughly half of all Black and Latino children and half of children who live in rural communities,²⁶ reflecting long-standing social and labor market inequities.²⁷ Full refundability ensures that children in families with the lowest incomes get the same amount of the Child Tax Credit as children in families with higher incomes; this is the driving force behind the expanded credit’s anti-poverty

²³ A. Nichols and J. Rothstein, *The Earned Income Tax Credit*, University of Chicago Press, pp. 137-218; H. Hoynes, “The earned income tax credit,” *ANNALS of the American Academy of Political and Social Science*, Vol. 686, No. 1, 2019, pp. 180-203.

²⁴ Akansha Batra, Deborah Karasek, and Rita Hamad, “Racial Differences in the Association between the U.S. Earned Income Tax Credit and Birthweight,” *Women’s Health Issues*, Vol 32, Issue 1, 2021.

²⁵ Suzanne Macartney and Robin Ghertner, “Federal Economic Stimulus Projected to Cut Poverty in 2021, Though Poverty May Rise as Benefits Expire,” Health and Human Services Department, Office of the Assistant Secretary for Planning and Evaluation, February 2022, <https://aspe.hhs.gov/sites/default/files/documents/452493535752b7b9e60f7406d6a40a7b/poverty-projections-2021-2022-rb.pdf>.

²⁶ Chuck Marr, Kris Cox, and Arloc Sherman, “Build Back Better’s Child Tax Credit Changes Would Protect Millions From Poverty — Permanently,” CBPP, November 11, 2021, <https://www.cbpp.org/research/federal-tax/build-back-better-child-tax-credit-changes-would-protect-millions-from>.

²⁷ Center on Poverty and Social Policy at Columbia University, “November Child Tax Credit payment kept 3.8 million children from poverty,” December 15, 2021, www.povertycenter.columbia.edu/news-internal/monthly-poverty-november-2021.

effects, especially among Black, Latino, and AIAN children.²⁸ States with higher levels of child poverty would also benefit more from an expansion.²⁹

Cash and Near-Cash Benefits Complement Work

Evidence also consistently shows that low-income families generally package receipt of benefits *with* work.³⁰ For example, receipt of the EITC is conditioned upon work participation. The EITC has had well-documented effects on poverty reduction and racial disparities for those able to work consistently but has been less successful at helping people with the lowest incomes, including parents who are students, are raising very young children, are unable to work consistently, or are between jobs. Along with many others these families benefit from a fully refundable Child Tax Credit which, unlike the EITC, is not conditioned on employment. Families with low incomes who regularly work previously got less than the full Child Tax Credit and thus also benefit substantially from a fully refundable Child Tax Credit by getting a full credit amount rather than a partial one.

Many studies find that changes in the propensity to work are fairly small in SNAP; most non-disabled adults receiving SNAP work. Census Bureau analysis suggests that, in recent years, nearly 80 percent of households receiving SNAP had at least one adult working within the past year.³¹ And in general work status is largely determined by inflexible forces, including involuntary job loss, disability status, age, and child care coverage. Work conditions, including safety, flexibility, and benefits packages, can also influence these choices.

What, if any, potential work disincentives occurred in response to the expanded Child Tax Credit? While it is difficult to pinpoint how such programs affect work behavior, the evidence on social programs and work suggests that the effects on work could be quite small or negligible. Again, individuals may not be working for a range of reasons, many of them beyond their control.

Though it may not fully generalize to a national-level program, assessments of the Alaska Permanent Fund — which pays out a similarly sized, universal-basic-income-style benefit — suggest, if anything, evidence of a positive part-time labor supply effect among women.³² Child benefit programs in Canada have been shown to improve some child development outcomes by way of

²⁸ Marr, Cox, and Sherman.

²⁹ G. Acs and K. Werner, “Expanding the Child Tax Credit Could Lift Millions of Children out of Poverty,” Urban Institute, 2021, <https://www.urban.org/research/publication/expanding-child-tax-credit-could-lift-millions-children-out-poverty>. Sophie Colyer, “Children Losing Out: The Geographic Distribution of the Federal Child Tax Credit,” Columbia University Poverty and Social Policy Brief, Vol. 3, No. 9, December 16, 2019, <https://www.povertycenter.columbia.edu/s/Losing-Out-on-Child-Tax-Credit-CPSP-2019.pdf>.

³⁰ Hardy, Smeeding, and Ziliak.

³¹ T.A. Loveless, “Supplemental Nutrition Assistance Program (SNAP) Receipt for Households: 2018,” U.S. Census Bureau, June 2020, <https://www.census.gov/content/dam/Census/library/publications/2020/demo/acsbr20-01.pdf>.

³² Damon Jones and Ioana Marinescu, “The Labor Market Impacts of Universal and Permanent Cash Transfers: Evidence from the Alaska Permanent Fund,” National Bureau of Economic Research Working Paper 24312, January 2020, <https://www.nber.org/papers/w24312>.

increased direct expenditures on food, child care, and transportation,³³ and with mixed demonstrated impacts on employment.³⁴

Recent research on the potential employment response of families to the expanded Child Tax Credit payments is mixed. While several studies suggest that these families did not pull back on employment in any consistent or significant manner,³⁵ one recent study does predict large employment responses to the Child Tax Credit.³⁶ This study draws upon relatively large estimates of the responsiveness of worker behavior, or “elasticity,” with respect to tax incentives.³⁷ A related re-analysis found that under a similar set of elasticity assumptions, the Child Tax Credit expansion would result in a historically large reduction in both overall poverty and deep poverty.³⁸ Thus, initial evidence finds no consistent link between the Child Tax Credit and work participation. It is possible that long-term effects on employment could be larger than the short-term effects. If Congress expands the Child Tax Credit permanently, future studies will no doubt assess these impacts with the benefit of a longer time horizon.

Efforts at promoting work participation could be better directed toward reinvestment in TANF and Workforce Innovation and Opportunity Act (WIOA) programs that promote and subsidize post-secondary educational attainment and training alongside programs that train workers while securing employer commitments to hire trainees within local economies.³⁹ Current state TANF programs, for example, emphasize participants’ work status with little regard to their long-term employment prospects. If states spent more of their state and federal TANF funds on job training and work programs — in 2020 they spent an average of just 10 percent of such funds on work activities — their programs would likely be far more successful at positioning participants for long-term success.⁴⁰

³³ L. Jones, K. Milligan, and M. Stabile, “Child Cash Benefits and Family Expenditures: Evidence from the National Child Benefit,” *Canadian Journal of Economics*, Vol 52(4), 2019, pp. 1433-1463.

³⁴ K. Milligan and M. Stabile, “Child Benefits, Maternal Employment, and Children's Health: Evidence from Canadian Child Benefit Expansions,” *American Economic Review Papers and Proceedings*, Vol. 99, No. 2, 2011, pp. 128-132.

³⁵ E. Ananat *et al.*, “Effects of the Expanded Child Tax Credit on Employment Outcomes: Evidence from Real-World Data from April to December 2021,” March 2022, <https://www.nber.org/papers/w29823>; Stephen Roll, Leah Hamilton, and Yung Chun, “Expanded Child Tax Credit payments have not reduced employment,” Social Policy Institute, January 2022, <https://socialpolicyinstitute.wustl.edu/child-tax-credit-payments-not-reduced-employment/>; Jacob Goldin, Elaine Maag, and Katherine Micheltore, “Estimating the Net Fiscal Cost of a Child Tax Credit Expansion,” National Bureau of Economic Research Working Paper 29342, February 2022, <https://www.nber.org/papers/w29342>.

³⁶ K. Corinth *et al.*, “The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion,” University of Chicago, *Becker Friedman Institute for Economics*, Working Paper No. 2021-115, (2021).

³⁷ Jacob Bastian, “Investigating the Effects of the 2021 Child Tax Credit Expansion on Poverty and Employment,” Working Paper, February 14, 2022, https://drive.google.com/file/d/1H5iNZZO_YFRIDz-3Tip4C-BpnD85bUjH/view.

³⁸ *Ibid.*

³⁹ Richard Kazis and Frieda Molina, “Implementing the WorkAdvance Model,” mdr, October 2016, <https://www.mdr.org/publication/implementing-workadvance-model>.

⁴⁰ Ali Safawi and LaDonna Pavetti, “Most Parents Leaving TANF Work, But in Low-Paying, Unstable Jobs, Recent Studies Find,” CBPP, November 19, 2020, <https://www.cbpp.org/research/family-income-support/most-parents-leaving-tanf-work-but-in-low-paying-unstable-jobs>.

The persistence of well-documented racial gaps in employment provides further support for providing liquidity to individuals and families with lower levels of work and for those out of work. These gaps are the result of a range of structural factors, including historical and contemporary labor market discrimination, limited employment networks, and exclusion from participation in the political process — which affects public sector investments and resource allocation — and from capital accumulation.⁴¹

As Figure 1 shows, at lower income levels Black-white gaps in employment are larger — 10 percentage points and higher when comparing Black and white heads of household at the 25th and 10th percentiles of their race-specific income distributions.⁴² Notably, until the mid-1990s, employment levels of white household heads at the 25th percentile were above those of Black household heads at the 50th percentile. Likewise, employment among Black households at the 25th percentile hovered below that of white households at the 10th percentile until the late 1990s. The Black and white income distributions are themselves unequal, demonstrating the stark divide in average resources and employment between the two groups. This is consistent with evidence that Black individuals and families have higher levels of income volatility. Providing cash benefits to families with very low incomes and higher levels of joblessness — including through programs like an expanded Child Tax Credit — will especially help Black households and other households of color, which have similarly experienced outsized effects of labor market disadvantages.⁴³

In addition, providing income to families with few (or currently no) work hours could translate to more economic resources for geographic regions experiencing elevated levels of joblessness and poverty. That includes rural areas and economically distressed regions, for example counties and states in the Delta and Appalachian economic zones. In short, effective work supports like the EITC can be complemented with income supports, like the expanded Child Tax Credit, that are not conditioned on work participation.

⁴¹ W.A. Darity, Jr. and A.K. Mullen, *From Here to Equality: Reparations for Black Americans in the Twenty-First Century*. UNC Press Books, 2020; Chye-Ching Huang and Roderick Taylor, “How the Federal Tax Code Can Better Advance Racial Equity,” CBPP, July 25, 2019, <https://www.cbpp.org/research/federal-tax/how-the-federal-tax-code-can-better-advance-racial-equity>; Williams, Logan, and Hardy; M. Bertrand and S. Mullainathan, “Are Emily and Greg more employable than Lakisha and Jamal? A field experiment on labor market discrimination,” *American Economic Review*, Vol. 94, No. 4, 2004, pp. 991-1013.

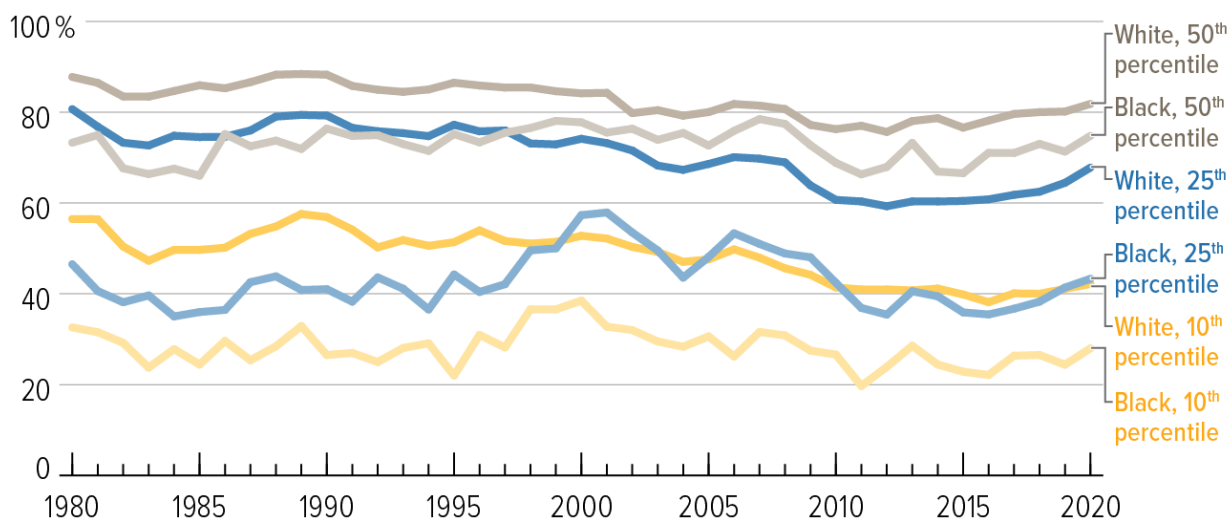
⁴² B. Hardy, C. Hokayem, and J.P. Ziliak, “Income Inequality, Race, and the EITC,” *National Tax Journal*, Vol. 75, No. 1, March 2022.

⁴³ Chad Stone, “Robust Unemployment Insurance, Other Relief Needed to Mitigate Racial and Ethnic Unemployment Disparities,” CBPP, August 5, 2020, <https://www.cbpp.org/research/economy/robust-unemployment-insurance-other-relief-needed-to-mitigate-racial-and-ethnic>.

FIGURE 1

Black-White Employment Gaps Are Especially Pronounced at Lower Income Levels

Percentage of adult household members working, by race and income



Source: Hardy, B., Hokayem, C., and Ziliak, J.P. (2021). "Income Inequality, Race, and the EITC." *National Tax Journal* 75(1)

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How Income Support, Including Expanded Child Tax Credit, Helps People Facing Economic Volatility

The EITC and expanded Child Tax Credit provide substantial income support, but there are areas of concern that underscore the importance of other cash and near-cash programs such as SNAP and TANF working alongside tax credits. With its various expansions over the years,⁴⁴ the EITC is now the largest program supporting non-elderly, non-disabled people in poverty. But the growth of this credit, largely premised on work and largely targeting those with low rather than no incomes, has roughly coincided with a reduction in the provision of TANF cash benefits going to families in deep poverty.

Many of these families face barriers to employment as described above and as evident in Figure 1.⁴⁵ And for all of the EITC's well-documented effects on poverty reduction and racial disparities —

⁴⁴ The EITC was introduced in 1975 and expanded in generosity and reach through the tax acts of 1986, 1990, 1993, and 2009. And while initially available only at the federal level, over half of states have now enacted refundable supplements to the federal credit, meaning a state credit is fully available to families even if it exceeds what they owe at tax time.

⁴⁵ Y. Ben-Shalom, R.A. Moffitt, and J.K. Scholz, "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States," National Bureau of Economic Research Working Paper 17042, revised December 2011; Hardy, Smeeding, and Ziliak; H.L. Shaefer, K. Edin, and E. Talbert, "Understanding the dynamics of \$2-a-day poverty in the United States," *RSF: The Russell Sage Foundation Journal of the Social Sciences*, Vol. 1, No. 1, pp. 120-138; R.A. Moffitt and J.P. Ziliak, "Entitlements: options for reforming the social safety net in the United States," *ANNALS of the American Academy of Political and Social Science*, Vol. 686, No. 1, 2019, pp. 8-35.

over a 40-year period it reduced Black-white income inequality by approximately 5 to 10 percent in a typical year — these impacts are concentrated among Black households able to work consistently. In other words the credit provides little to no reduction in racial inequality for families with very low or no income in a given year.⁴⁶ This reflects the stark reality that many Black workers and families face a range of barriers to finding and retaining long-term employment; the EITC lifts after-tax incomes on the condition that recipients are both employed and filing taxes. And this is true for any individual or family with very low earnings or that is out of work, to whom the credit gives limited to no assistance.

For those who receive the EITC, the once-per-year delivery as a tax refund may carry benefits and risks; some families value the lump sum nature of the payment,⁴⁷ while other families would prefer a periodic, within-year payments like those offered in the expanded Child Tax Credit. Finally, some eligible families may be unaware that these benefits are available to them. Recent work by the Federal Reserve Bank of Chicago suggests that Child Tax Credit-eligible, non-filing households are more likely to reside in relatively lower-income ZIP codes with higher shares of residents of color, underscoring the importance of continued outreach to ensure full take-up of benefits.⁴⁸

Fortunately, the nation’s economic and health security programs operate as a system of benefits, with some programs exhibiting strength where others are relatively unresponsive. An expanded Child Tax Credit provides assistance to many families left out of EITC receipt, by extending assistance to families out of work or with very low earnings. In this way, an effective support system targets multiple dimensions of poverty and low income — including temporary spells of low income and joblessness, persistent low earnings with work, and structural barriers that prevent consistent work participation.

Cash transfers such as the recently expanded Child Tax Credit provide targeted, within-year income support — in the form of monthly advance payments — that are not conditioned on employment, providing benefits to families with extremely low earnings or joblessness, who receive little to no EITC.⁴⁹ The credits have been shown to reduce poverty significantly, across races and ethnicities. The expanded Child Tax Credits, which ranged from \$3,000 to \$3,600 per child, alongside enhanced SNAP benefits and pandemic unemployment insurance in the American Families Plan, are forecasted to have reduced nationwide poverty by 23 percent from 2018 levels, a useful benchmark for assessing conditions prior to the pandemic. Black child poverty is forecasted to be reduced by 56 percent and Hispanic child poverty by 49 percent. Poverty among white and among Asian children is forecasted to have fallen by roughly 43 and 39 percent, respectively.⁵⁰ The

⁴⁶ Hardy, Hokayem, and Ziliak.

⁴⁷ K. Edin, L. Tach, and S. Halpern-Meekin, “Tax code knowledge and behavioral responses among EITC recipients: Policy insights from qualitative data,” *Journal of Policy Analysis and Management*, Vol. 33, No. 2, pp. 413-439.

⁴⁸ Nathan Anderson, “Advance Child Tax Credit Payments: Increasing Support for Families with Children,” Federal Reserve Bank of Chicago, July 14, 2021, <https://www.chicagofed.org/publications/blogs/cdps/2021/advance-child-tax-credit-payments>.

⁴⁹ Marr, Cox, and Sherman.

⁵⁰ The Potential Poverty Reduction Effect of the American Families Plan, *Center on Poverty and Social Policy*, Columbia University, April 28, 2021.

monthly payments built into the enhanced Child Tax Credit payments help reduce hardship by buffering against periodic income and expense volatility occurring in the lives of families.

The fact that these monthly payments come as cash — as opposed to in-kind support for food, housing, and other specific needs — is another critical feature of the Child Tax Credit. Families have needs that may vary month to month and that only cash can cover, such as utilities, transportation, clothing, diapers, and personal hygiene products.⁵¹

Cash and near-cash programs decoupled from the tax system deliver benefits during economic downturns and following unforeseen events, including job loss and natural disasters. SNAP benefits serve this purpose, supplementing household budgets both for families who work with persistently low earnings and for those who are out of work. Recent, historic expansions to the purchasing power of SNAP⁵² — based on modifications to the Thrifty Food Plan,⁵³ a set of foods representing a nutritionally adequate diet — are forecasted to dramatically reduce food hardship and insecurity. SNAP maximum benefits will rise by 21 percent or, on average, by roughly \$1.20 per person per day.⁵⁴

TANF also has an important role to play for many families facing economic insecurity. But states must reform their TANF programs for them to effectively deliver timely cash assistance to support families facing unanticipated events and risks associated with low income and low overall resources. States have significant discretion over whether and how to allocate their TANF block grants toward cash assistance. Many states have used this discretion to shift their TANF investments away from cash assistance. And, in several recent studies, a troubling link has emerged suggesting that, on average, states with a higher proportion of Black people on the TANF caseload provide lower levels of cash assistance.⁵⁵ Despite these flaws, TANF, like other economic assistance programs, provides liquidity that helps low-income families cope with economic insecurity.

Conclusion

Within a dynamic economy, many workers and families will face a range of transition costs associated with job loss and job change. Historically, workers with fewer educational credentials, as well as people of color and workers from rural counties and towns, have generally borne a

⁵¹ CBPP and National Diaper Bank Network, “End Diaper Need and Period Poverty: Families Need Cash Assistance to Meet Basic Needs,” September 27, 2021, <https://www.cbpp.org/research/family-income-support/end-diaper-need-and-period-poverty-families-need-cash-assistance-to>.

⁵² James P. Ziliak, “Modernizing SNAP Benefits,” Hamilton Project, May 2016, https://www.hamiltonproject.org/assets/files/ziliak_modernizing_snap_benefits.pdf.

⁵³ U.S. Department of Agriculture, “USDA Modernizes the Thrifty Food Plan, Updates SNAP Benefits,” August 16, 2021, <https://www.usda.gov/media/press-releases/2021/08/16/usda-modernizes-thrifty-food-plan-updates-snap-benefits>.

⁵⁴ Joseph Llobrera, “Modernizing SNAP Benefits Will Help Millions of Families Afford Healthy, Nutritious Diet,” CBPP, August 16, 2021, <https://www.cbpp.org/blog/modernizing-snap-benefits-will-help-millions-of-families-afford-healthy-nutritious-diet>.

⁵⁵ B.L. Hardy, R. Samudra, and J.A. Davis, “Cash Assistance in America: The Role of Race, Politics, and Poverty,” *Review of Black Political Economy*, Vol. 46, No. 4, 2019, pp. 306-324; Z. Parolin, “Temporary Assistance for Needy Families and the Black–White Child Poverty Gap in the United States,” *Socio-Economic Review*, 2019.

disproportionate share of risk within the economy. Many families — and Black families disproportionately — lack the emergency savings and wealth needed⁵⁶ to withstand economic insecurity in the absence of income support programs. And these same families are more likely to face higher levels of unanticipated expense volatility.⁵⁷

The current set of assistance programs that provide income and other near-cash benefits — including the EITC, Child Tax Credit, SNAP, and TANF — provide important protection for many workers and families against risk from economic insecurity. The evidence demonstrates that large socioeconomic benefits accrue to society from these investments, particularly through the channel of upward economic mobility. An expanded, monthly and refundable Child Tax Credit would offer economic assistance supported by a body of evidence that demonstrates long-term benefits for families and society.⁵⁸

Income support programs are an important feature of a market economy that offers substantial risks and returns for individuals and families alike. As the nation continues to confront challenges — including a continued economic expansion amid an ongoing pandemic with health risks and labor-supply disruptions, as well as long-standing forces of automation and climate change — the economy will produce new opportunities even as previously stable employment sectors experience disruption.

These are foreseeable challenges, and the nation’s income support programs provide some flexibility with which workers and families can adapt to these changes. These programs represent an efficient investment in our most important resource: children and families. Today’s children are tomorrow’s inventors, entrepreneurs, educators, and leaders. They do not choose the conditions they are born into, but policymakers can choose how our system is positioned to support them.

⁵⁶ Darity and Mullen; W. Darity, Jr., F.R. Addo, and I.Z. Smith, “A subaltern middle class: The case of the missing ‘Black bourgeoisie’ in America,” *Contemporary Economic Policy*, Vol. 39, No. 3, 2021, pp. 494-502.

⁵⁷ J. Morduch, and R. Schneider, R. (2017). *The Financial Diaries: How American Families Cope in a World of Uncertainty*, Princeton University Press, 2017.

⁵⁸ Sherman *et al.*, August 2021.