

RESEARCH BRIEF • APRIL 2023

# The Short-Term Labor Supply Response to the Expanded Child Tax Credit

Based on BFI Working Paper No. 2023-60, "[The Short-Term Labor Supply Response to the Expanded Child Tax Credit](#)," by Brandon Enriquez, MIT; Damon Jones, University of Chicago; and Ernest V. Tedeschi

*The COVID-era expansion of the Child Tax Credit, which temporarily increased the amount of the benefit and removed its work requirement, did not significantly reduce labor force participation among recipients.*

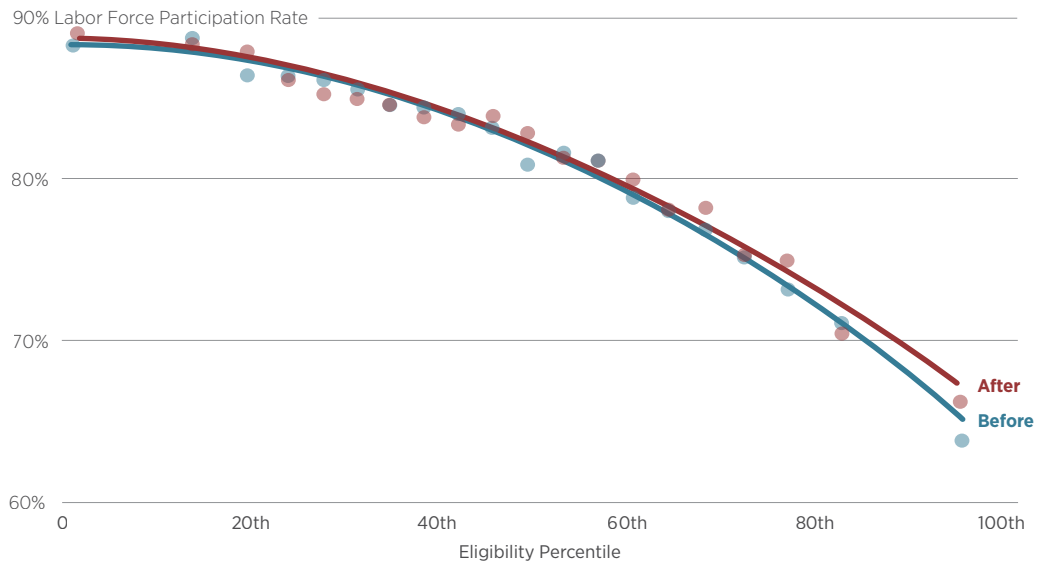
Welfare policies such as tax and transfer programs are often criticized for disincentivizing recipients from working, and many policies require that recipients work to attain eligibility. In this paper, the authors study a pandemic-era federal policy change to determine whether households receiving unrestricted cash transfers tend to work less as a result. The American Rescue Plan of 2021 expanded the Child Tax Credit (CTC), increasing the amount of the benefit and removing the work requirement for the tax year 2021.

In addition, monthly advanced payments were sent out from July to December 2021. The authors use data from the Current Population Survey to study how this expansion impacted labor force participation and hours worked among recipients before and after the change. They find the following:

- The expanded CTC and temporary removal of the work requirement did not significantly reduce labor force participation or total hours worked. These results hold for recipients of varying gender, education, and racial backgrounds, as well as across families with different numbers of children.

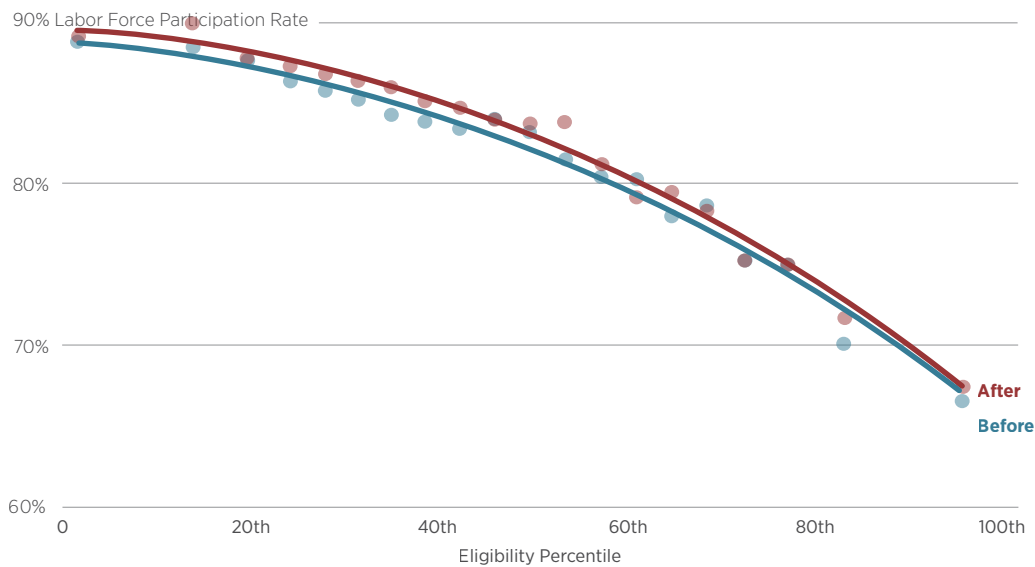
The expansion of the CTC during COVID provides a unique opportunity to study the effect of switching from a transfer with work requirements to an unconditional cash benefit. The results suggest that beneficiaries' work behavior does not change when a work requirement is temporarily eliminated, though these patterns may change with a more permanent policy change.

**Figure 1 • Labor Force Participation Before and After Extended CTC Introduction**



Note: This figure plots the average labor force participation rate for the set of families at each percentile of eligibility for the expanded CTC. The blue line shows the relationship before the CTC was expanded (for the period from February through June 2021) and the red line shows the relationship afterwards, between August and December 2021. As you can see, while labor force participation does decline for families at higher levels of CTC eligibility, this pattern is nearly identical pre- and post-CTC expansion, suggesting that the change did not reduce labor force participation.

**Figure 2 • Labor Force Participation Before and After Extended CTC Expiration**



Note: This figure plots the average labor force participation rate for the set of families at each percentile of eligibility for the expanded CTC. The blue line shows the relationship before the expanded CTC was expired (for the period from August through December 2021) and the red line shows the relationship afterwards, between January and March 2022. As you can see, while labor force participation does decline for families at higher levels of CTC eligibility, this pattern is nearly identical pre- and post-expanded-CTC expiration, suggesting that the change did not reduce labor force participation.

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