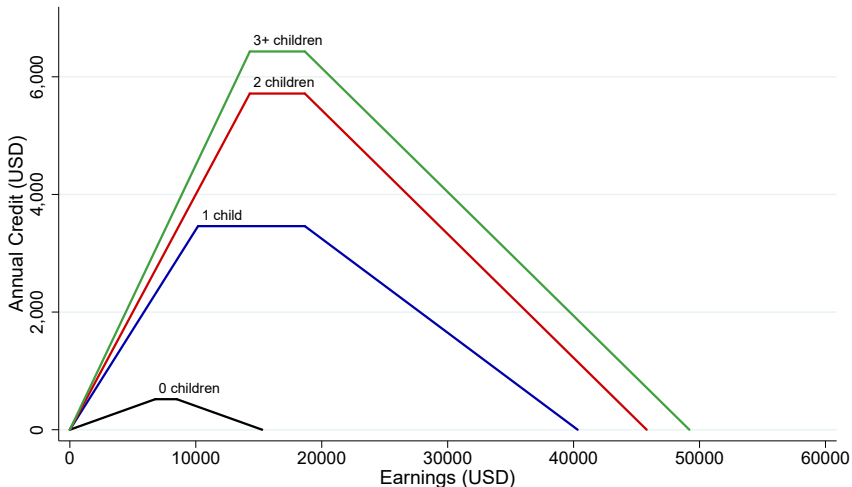# The EITC and the Extensive Margin: A Reappraisal
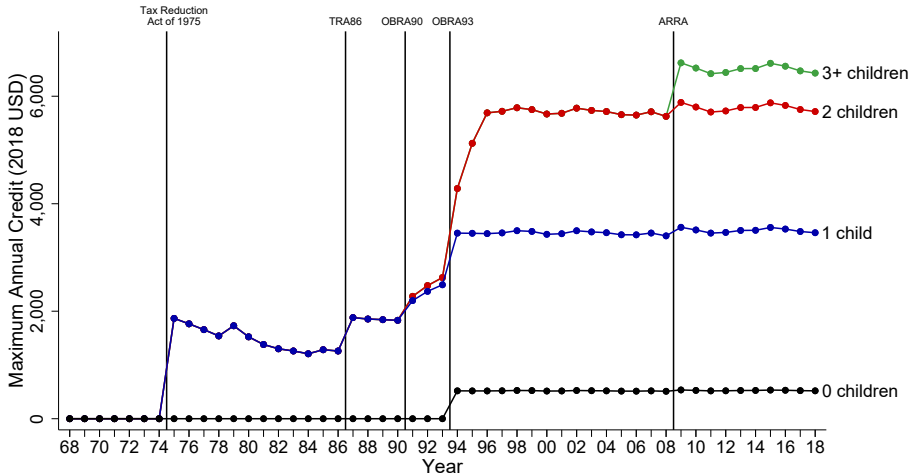
Henrik Kleven

Princeton University and NBER

December 2023
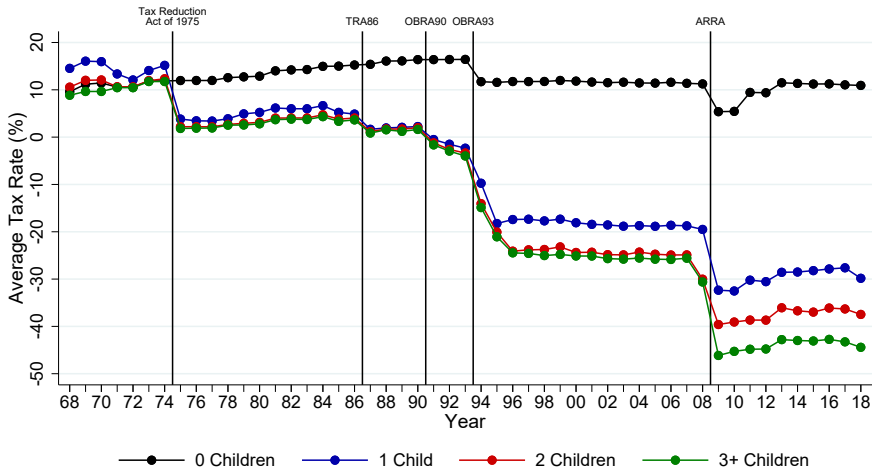
# EITC Schedule in 2018

# EITC Maximum Credit Over Time

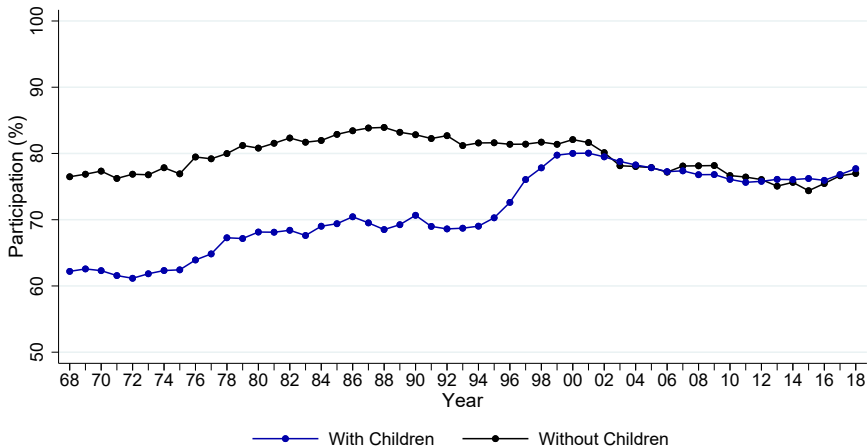# Average Tax Rates on Single Women Over Time

# Contribution

- ► Large literature on extensive margin responses to the EITC
  - ► A consensus that effects were large on single mothers

- ► I reappraise the effects of the EITC on single mothers

- ► What's new?
  - ► Long-run perspective
  - ► Analysis of all state and federal reforms
  - ► Event study approach applied to all reforms
  - ► New analysis of confounders
  - ► Analysis of model uncertainty

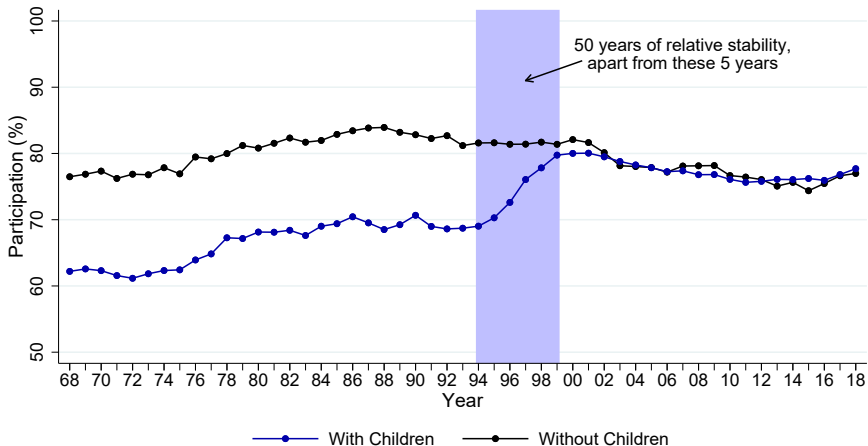# The EITC and the Extensive Margin: The Long View

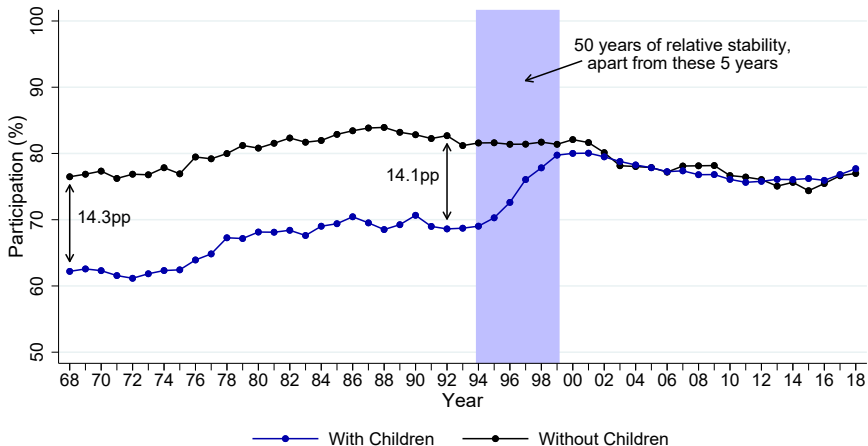# Labor Force Participation of Single Women
## With and Without Children

# Labor Force Participation of Single Women
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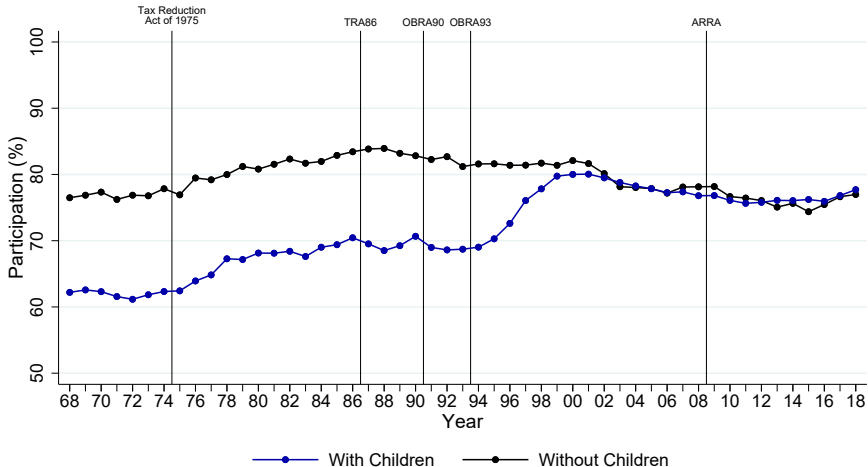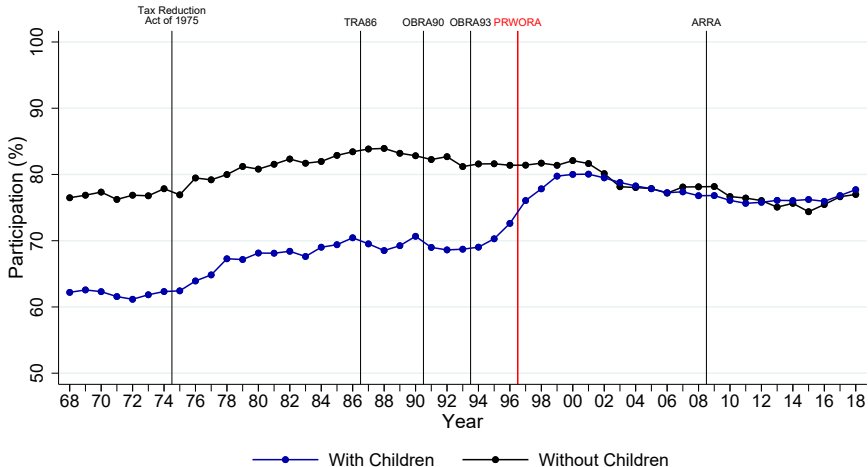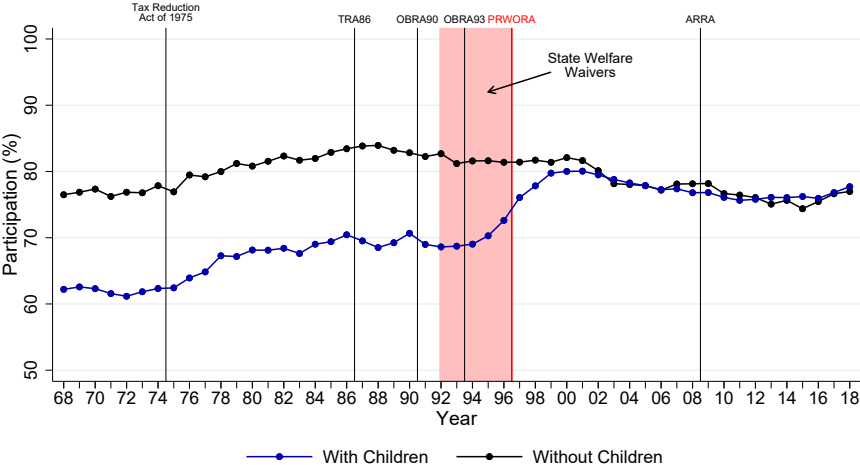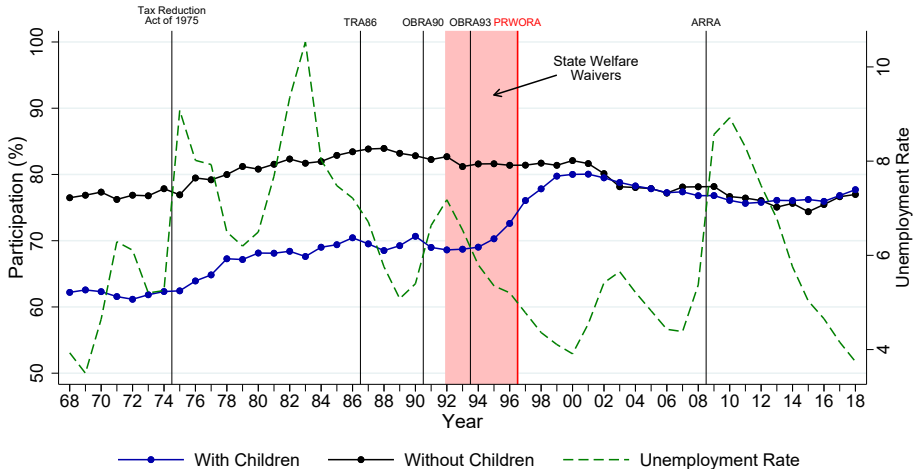# Labor Force Participation of Single Women
## With and Without Children

# Labor Force Participation of Single Women
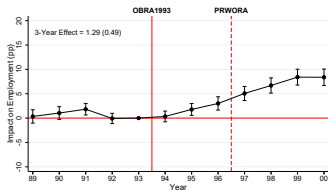## With and Without Children

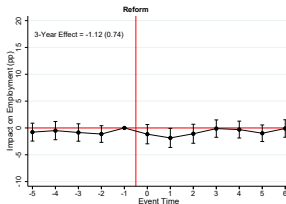# The EITC and the Extensive Margin: Event Studies

# Event Studies of EITC Reforms

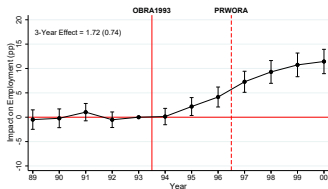**All Single Mothers**
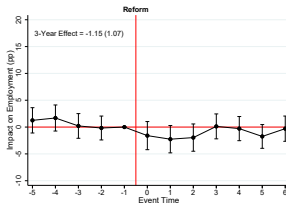
1993 Reform

All Other Reforms


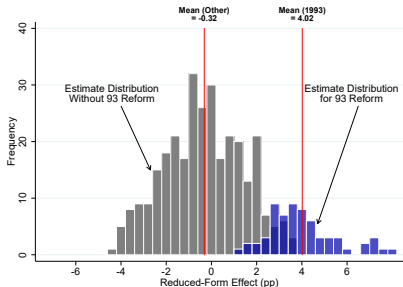
**Bottom Half of Predicted Earnings**

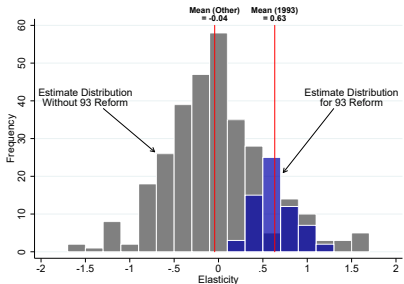1993 Reform

All Other Reforms

# Model Uncertainty
## Implications of Specification Choice

### Distribution of Reduced-Form Effects
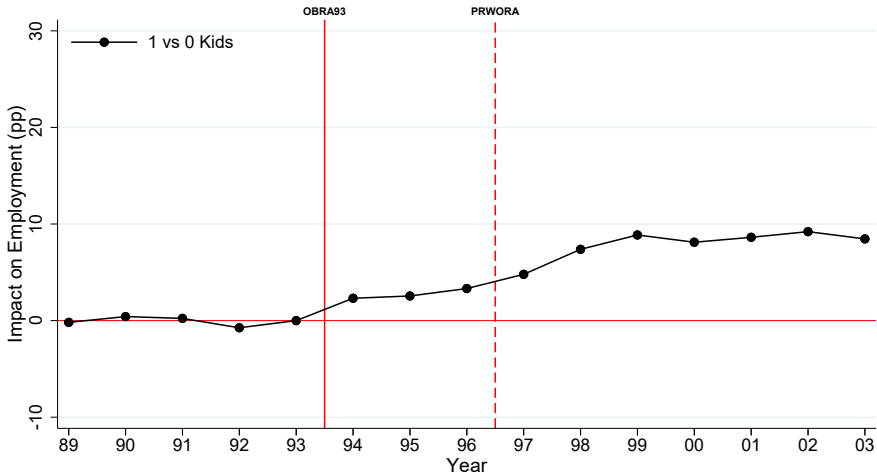


### Distribution of Elasticities

The EITC and the Extensive Margin:
Dissecting the 1990s

# The EITC and the Extensive Margin:
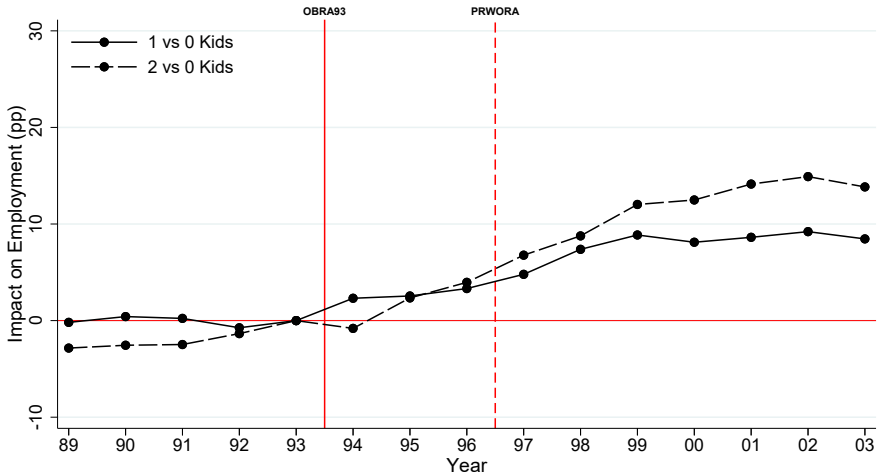## Effects by Number of Children

# DiD by Number of Children
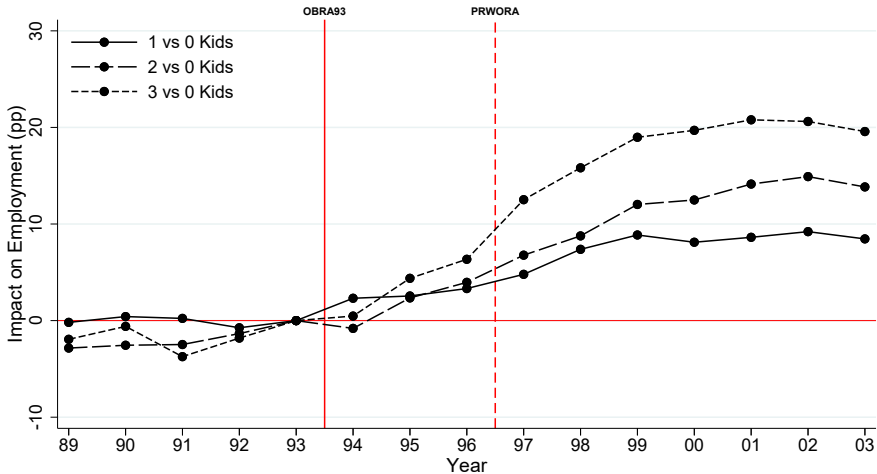
## Weekly Employment

# DiD by Number of Children
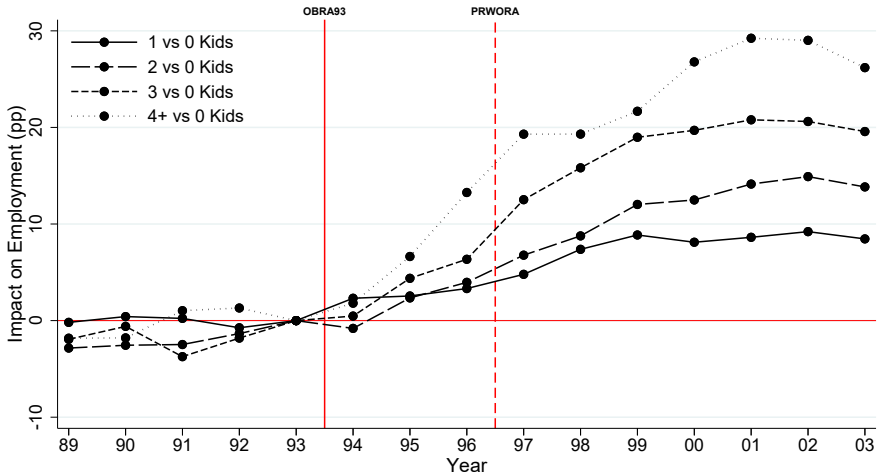
## Weekly Employment

# DiD by Number of Children

## Weekly Employment

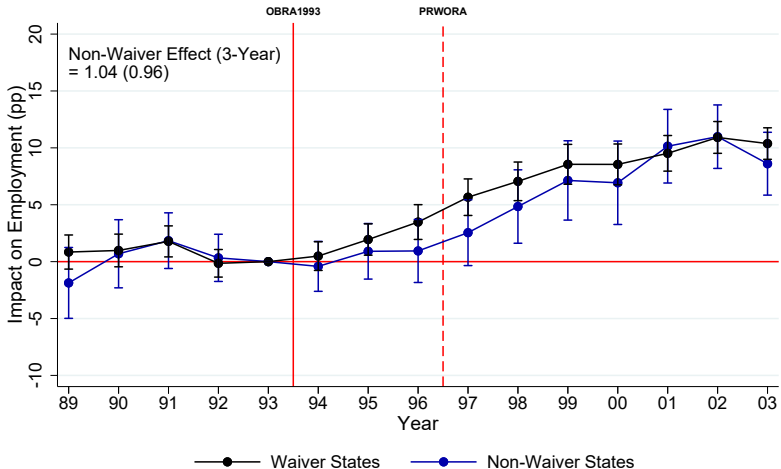# DiD by Number of Children
## Weekly Employment

The EITC and the Extensive Margin:
Effect of Welfare Waivers

# Waiver vs Non-Waiver States

▶ Waiver types: time limits, work requirements, family caps, JOBS exemptions, JOBS sanctions, and earnings disregards

▶ 38 states approved statewide welfare waiver legislation between 1992-96

▶ States without statewide waiver legislation:

  ▶ Alabama, Alaska, District of Columbia, Kansas, Kentucky, Louisiana, Nevada, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, and Wyoming

▶ Run DiD event studies separately for waiver and non-waiver states

Waiver vs Non-Waiver States

Weekly Employment, All Single Women

# Conclusions

# Conclusions

▶ The empirical research that underpins the consensus view on the EITC and the extensive margin is fragile

▶ While I do not find any clear evidence of short-run effects, the program may have had more gradual, long-run effects

   1. Optimization frictions
   2. Dynamic responses

▶ Still, the argument for gradual, long-run effects does not fit easily with the long-run descriptive patterns