



The Long-Run Effects of the EITC on Women's Earnings

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We use longitudinal data on marriage and children from the Panel Study of Income Dynamics to characterize women's exposure to the federal and state Earned Income Tax Credit (EITC) during approximately their first two decades of adulthood. We then estimate the long-run effects of this exposure to the EITC on women's wages and earnings (as well as employment and hours) as mature adults.

We find evidence indicating that exposure to a more generous EITC when women were unmarried and had children leads to higher wages, earnings, and hours in the longer-run. We also find some evidence that exposure to a more generous EITC when women had children but were married leads to lower earnings and hours in the longer-run. The longer-run effects are to some extent consistent with what we would expect if the short-run effects of the EITC on employment that are documented in other work, and predicted by theory, are reflected in cumulative labor market experience that influence earnings. However, the estimated effects of long-run exposure to the EITC on earnings appear to be larger than can be accounted for by differences in labor market experience. The evidence of higher hours may help explain this result, and there might also be a sizable role for impacts on investment aside from that associated with labor market experience, such as training, investment in job search for jobs with greater wage growth prospects, etc.

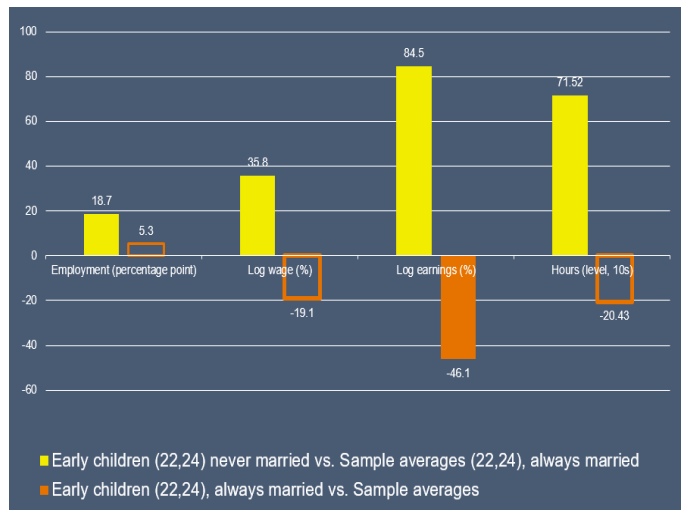
Overall, the results provide support for concluding that a more generous EITC not only boosts employment of low-skilled, generally single, mothers in the short term – a result established in the existing literature on the labor supply effects of the EITC. Longer-term exposure to a more generous EITC also appears to boost earnings of this group in the longer run, implying that pro-work incentives can have beneficial longer-run effects that can increase economic self-sufficiency.

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Key Findings:

- Exposure to a more generous EITC when women were unmarried and had children leads to higher wages, earnings, and hours in the longer-run.
- Exposure to a more generous EITC when women had children but were married leads to lower earnings and hours in the longer-run.

Figure 1 – Implied relative effects from permanent 10 percentage point EITC increase



Implications for Policy

The earned income tax credit (EITC) stands out as perhaps the most effective pro-work, anti-poverty policy the United States has devised. Governments now considering an expansion of the credit do so based on extensive research that focuses only on its short-term benefits. But a more generous EITC also boosts women's earnings in the long run. Most research has looked at how effective the EITC is in getting people into the work force and the subsequent initial employment benefits, with only one prior study examining the resulting growth in earnings over five years. This study takes a much longer-run perspective, and strengthens the case even more, by showing that the EITC not only provides more resources to low-income families, but, because of the pro-work incentives, boosts how much they earn on their own in the long run.