

## Paper 2: My Bad

Is this a brochure for the EITC?

Too much detail before I understand what *this* paper brings to the table. What's the argument?

Too much detail in topic sentence....

Why am I being given this information here? What's the relevant point?

Main points buried under details.

The EITC is a refundable tax credit for low to moderate income working individuals and families administered through the income tax system. In 2010, 27.4 million tax filers received a total of \$59.6 billion in EITC payments (Internal Revenue Service 2012, Table 2.5). In fact, the EITC is the largest poverty reduction program in the United States: almost 21 million American families received more than \$36 billion in payments through the EITC in 2004. The effects of responses to the EITC have been debated in the literature. Evidence on intensive-margin responses is mixed (Meyer and Rosenbaum 1999, Bollinger, Gonzalez, and Ziliak 2009, Rothstein 2010). At the same time, several studies have shown that the EITC clearly increases labor force participation – the extensive-margin response (Eissa and Liebman 1996, Meyer and Rosenbaum 2001, Grogger 2003, Hotz and Scholz 2006, Gelberand Mitchell 2012). Surveys show that the knowledge that working can yield a large tax refund is much more widespread than knowledge about the non-linear marginal incentives created by the EITC (Liebman 1998, Ross Phillips 2001, Romich and Weisner 2002, Smeeding, Ross Phillips, and O'Connor 2002, Maag 2005). Thus, knowledge about the increased return to working diffused more quickly than knowledge about how to optimize on the intensive margin.

The pattern of knowledge diffusion is consistent with a model of rational information acquisition, as re-optimizing in response to a tax reform on the extensive margin has first-order (large) benefits, whereas reoptimizing on the intensive margin has second-order (small) benefits (Chetty 2012). Intensive-margin responses may therefore take more time to emerge. Our analysis contributes to the literature on estimating behavioral responses from non-linearities in the budget set and bunching at kink points (e.g., Hausman 1981, Saez 2010, Chetty et al. 2011, Kleven and Waseem 2012). As wage-earners cannot control earnings perfectly, the impact of taxes on the wage earnings distribution is diffuse and does not produce visible bunching at kinks. As a result, traditional non-linear budget set methods would again lead to the conclusion that taxation does not generate intensive-margin responses.

Research on the impacts of tax policy must confront two important empirical challenges. First, it is difficult to find counterfactuals to estimate causal effects because federal tax policies often do not vary cross-sectionally. Second, many individuals respond slowly to tax changes because of inattention and other frictions. This makes it difficult to identify steady-state impacts from short-run changes in behavior around tax reforms. In this paper, we overcome these challenges to show that prior studies of short-run responses to tax reforms may have underestimated the importance of intensive-margin responses. Recent work suggests that a lack of knowledge about changes in the tax code and other adjustment frictions can lead to sluggish adjustment of labor supply, especially on the intensive margin (Chetty 2012). We develop a new research design that overcomes these frictions, and find intensive-margin responses to taxation that are similar in magnitude to previously documented