Antipoverty policy initiatives for the United States

A forthcoming *RSF Journal* double issue includes a variety of innovative evidence-based antipoverty proposals. The following articles summarize six of these proposals, linked by their focus on cash or "near cash" social welfare programs and policies.

A universal child allowance

H. Luke Shaefer, Sophie Collyer, Greg Duncan, Kathryn Edin, Irwin Garfinkel, David Harris, Timothy Smeeding, Jane Waldfogel, Christopher Wimer, and Hirokazu Yoshikawa

H. Luke Shaefer is Associate Professor of Social Work and Public Policy and Director of Poverty Solutions at the University of Michigan and an IRP Affiliate; Sophie Collyer is Research Analyst at the Center on Poverty and Social Policy at the Columbia University School of Social Work; Greg Duncan is Distinguished Professor in the School of Education at University of California, Irvine, and an IRP Affiliate; Kathryn Edin is Bloomberg Distinguished Professor at the Zanvyl Krieger School and Bloomberg School of Public Health at Johns Hopkins University and an IRP Affiliate; Irwin Garfinkel is the Mitchell I. Ginsberg Professor of Contemporary Urban Problems and Interim Dean of the Columbia University School of Social Work and an IRP Affiliate; David Harris is President of Children's Research and Education Institute and an Associate of the Columbia Population Research Center; Timothy Smeeding is the Lee Rainwater Distinguished Professor of Public Affairs and Economics at the University of Wisconsin–Madison and an IRP Affiliate; Jane Waldfogel is the Compton Foundation Centennial Professor for the Prevention of Children's and Youth Problems at Columbia University School of Social Work and an IRP Affiliate; Christopher Wimer is Research Scientist and Co-Director of the Center on Poverty and Social Policy at the Columbia University School of Social Work and an IRP Affiliate; Hirokazu Yoshikawa is the Courtney Sale Ross Professor of Globalization and Education and a University Professor at New York University.

In order to reduce the high rate of child poverty in the United States and eliminate extreme poverty (cash income of $2 per person, per day), we, a group of 10 poverty scholars, propose replacing the Child Tax Credit and the child tax exemption with a universal monthly child allowance of $250. This amount could be higher for young children, and could be lowered for additional children. This allowance would go a long way in meeting the basic needs of children, and distribution of payments on a monthly rather than annual basis would help reduce income instability among low-income families.

Child poverty in the United States

Approximately one in five children in the United States lives in poverty.[1] This is despite the fact that public supports for low-income families, including the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Supplemental Nutrition Assistance Program (SNAP), have been greatly expanded in recent decades, lifting many families out of poverty. Still, many benefits available to families with children go to those that are not poor. Specifically, the $1,000 per child annual CTC and the $4,000 per child annual tax exemption, available to those who file (and owe) taxes, primarily go to families with incomes well above the poverty line. In addition, children without a parent in the workforce do not benefit from work-based income supports, such as the EITC. This is illustrated through a comparison of poverty rates in the United States to other countries in the Organization for Economic Cooperation and Development (OECD). Before taxes and government transfers are considered, there is little difference in poverty rates. However, as shown in Figure 1, once all available income supports in a given country are included, the United States has a higher child income-poverty rate than most other countries, and a higher overall poverty rate than all but two countries. One of the reasons for this difference is that many other OECD countries provide some type of universal child allowance, available to all families with children regardless of their income and whether or not their parents work.

Policy principles to support families with children

In order to provide better support to children, we propose replacing the CTC and child tax exemption with a universal monthly child allowance, based on the following five core principles.

1. *The child allowance should be universal.* While the U.S. federal income tax system currently provides benefits to families with children, through the CTC and the child tax exemption, those with incomes low enough that they do not owe taxes do not receive this income support. Our proposed child allowance would replace the current system with a more generous amount that would be paid monthly, and would be provided to all families with children. Because the payment amount would not vary by income level, there would be no disincentive for working more or at higher wages as might occur with other work-based income supports such as the EITC, which begins to phase out as income rises above a particular amount. Universality would also avoid stigma that may be associated with benefits that are available only to low-income families, and would avoid the costly administrative system needed to assess eligibility.
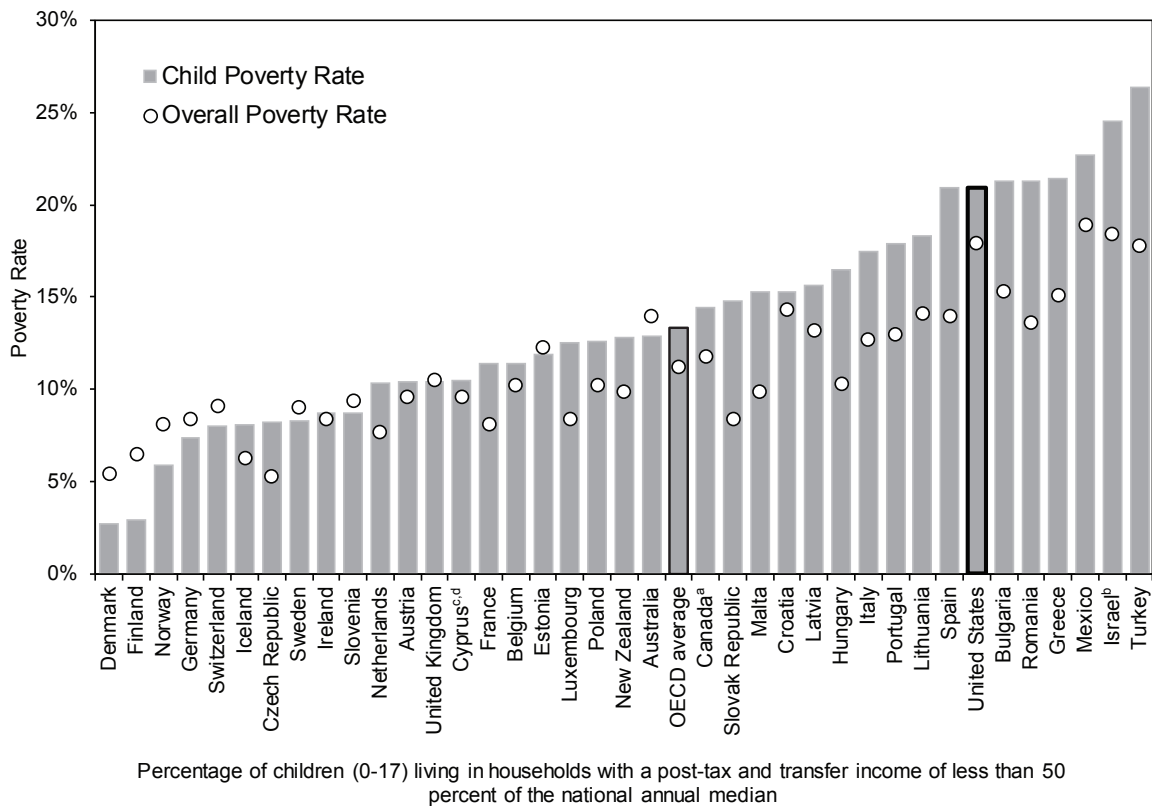
Percentage of children (0-17) living in households with a post-tax and transfer income of less than 50 percent of the national annual median

Figure 1. OECD country poverty rates, 2012.

Source: Authors' complation based on OECD Income Distribution Database, 2016.

Notes:

[a]Data for Canada refer to 2011.

[b]The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem, and Israeli settlements in the West Bank under the terms of international law.

[c]Turkey: The information in this document with reference to Cyprus relates to the southern part of the island. No single authority represents both Turkish and Greek Cypriot people on the island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the Cyprus issue.

[d]European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

2. *The allowance should be accessible and frequent enough to provide consistent income through the year.* Income instability is a problem for families whose income may vary widely through the year. Receiving monthly payments would provide families with a stable and consistent income source.

3. *The amount of the allowance should be sufficient to meet the basic needs of children.* As Bitler, Hines, and Page note in their article in this issue, research shows that an income increase of $1,000 or more annually can have a significant positive effect on child well-being.[2] While more research is needed to identify the ideal amount for an allowance, we are proposing $250 monthly per child, which is within the range of benefit levels in OECD countries with such an allowance.

4. *Payments could be higher for younger children.* There is evidence that young children in particular may benefit from additional income.[3] Expenditures also tend to be higher for young children because of childcare, which is significantly more expensive for infants and toddlers. Finally, children under age 6 are more likely to be living in poverty than are older children. We propose that the monthly allowance for children under age 6 could be $50 higher, or $300, as reflected in our second and third models.

5. *Payments could be lower for additional children.* Although it is common practice in studies of family well-being to account for economies of scale for additional children, there is little agreement on exactly how such an adjustment should be made.[4] We incorporate an adjustment for additional children in our third model, with the details to be determined by policymakers.[5]

Three models for a universal child allowance

Exhibit 1 shows three alternatives for a child allowance based on these five principles. First, the simple model, based on principles one through three, would provide a $250 monthly payment per child. The second model, based on principles one through four, would provide an additional $50 monthly for children under age 6. Finally, the third model, based on all five principles, would both provide an additional $50 for younger children, and reduce payment amounts for more children in the household.

Estimated effects of a child allowance on poverty

In order to estimate the effects of the three models of a universal child allowance on child poverty rates, we used data from the Current Population Survey to look at: (1) child poverty rates—the proportion of children in households with income under 100 percent of the poverty threshold; (2) child deep poverty rates—the proportion of children in households with income under 50 percent of the poverty threshold; and (3) child extreme poverty rates—the proportion of children in households with annual cash income of less than $2.00 per day per person.[6]

Figure 2 shows the results of these analyses. The group of columns on the left side of the figure show poverty rates based on post-tax and transfer income using 2014 poverty thresholds from the U.S. Census Bureau's Supplemental Poverty Measure; the remaining sets of bars show poverty rates under each of three models described above. We find that under the simple model of $250 per month per child, child poverty would drop by about 40 percent, deep poverty would be cut almost in half, and extreme poverty would be effectively eliminated. The reductions in poverty and deep poverty would be slightly larger with larger payments for younger children, and slightly smaller with both larger payments for younger children and smaller payments for additional children. Extreme poverty would still be effectively eliminated with any of the three models.

Exhibit 1
Universal child allowance models

Model 1:
Monthly payments of $250 per month for each child under age 18.

Model 2:
Monthly payments of $300 per month for each child under age 6, and $250 per month for each child ages 6 through 17.

Model 3:
Monthly payments of $300 per month for each child under age 6, and $250 per month for each child ages 6 through 17, with a reduction in these levels for additional children in the household.
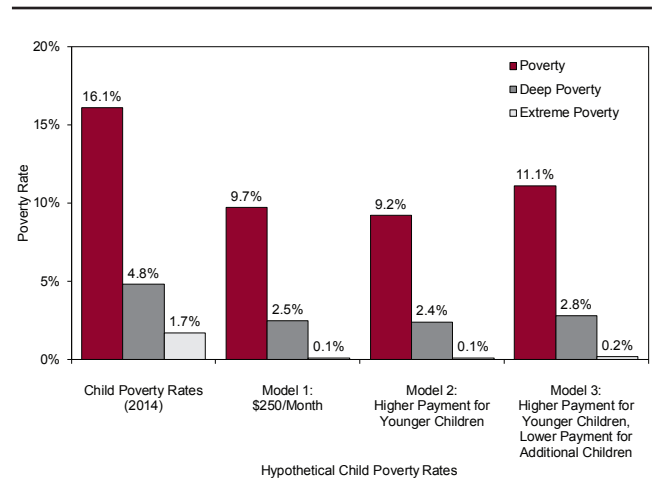

Figure 2. Effects of a Universal Child Allowance on Child Poverty Rates, 2014.

Source: Authors' calculations from the 2015 Current Population Survey Annual Social and Economic Supplement.

Notes: Poverty rates reflect 2014 post-tax and transfer income, and use thresholds from the U.S. Census Bureau's Supplemental Poverty Measure.

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Cost considerations

We propose replacing the Child Tax Credit, Additional Child Tax Credit, and child tax exemption with this universal child allowance. In 2015, the total annual cost of these three existing tax benefits was $97 billion. We estimate that the additional annual cost of a universal child allowance (over and above the $97 billion) would be $93 billion for the simple model, $105 billion for the second model, which provides higher payments for younger children, and $66 billion for the third model, which provides both larger payments for younger children and smaller payments for additional children. One way of paying for these added costs would be to increase income tax rates. For example, higher-income taxpayers could pay a higher tax rate on the child allowance, similar to how the current CTC and child tax exemption are phased out for those with higher earnings.

Our proposal costs more than that proposed by Bitler, Hines, and Page in their article, as we suggest a higher benefit level, and do not use funds currently allocated for the child-related parts of the EITC in order to maintain work incentives. We calculate that a monthly child allowance could be entirely funded using the $97 billion currently spent on existing child tax credits and exemptions *if* the monthly amount was dropped to $125 per child. However, because research suggests that this payment level would not be sufficient to cover children's basic needs, and because some middle-income families would see their total income fall, we prefer to propose a $250 monthly payment per child, and consider ways to pay the added cost.■

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[1]T. Smeeding and C. Thévenot, "Addressing Child Poverty: How Does the United States Compare with Other Nations?" *Academic Pediatrics* 16, No. 3 Supplement (2016): S67–S75.

[2]See, for example G. B. Dahl and L. Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," *American Economic Review* 102, No. 5 (2012): 1927–1956.

[3]G. J. Duncan, P. A. Morris, and C. Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments," *Developmental Psychology* 47, No. 5 (2011): 1263–1279.

[4]G. Anyaegbu, "Using the OECD equivalence scale in taxes and benefits analysis," *Economic & Labour Market Review* 4, No. 1 (2010): 49–54.

[5]For the purposes of our estimates, we chose an adjustment in the middle of the range proposed by the National Research Council in its recommendations for a new poverty measure (National Research Council. 1995. Measuring Poverty: A New Approach. Citro CF, Michael R, Eds. Panel on Poverty and Family Assistance: Concepts, Information Needs, and Measurement Methods. *Committee on National Statistics, Commission on Behavioral and Social Sciences and Education. National Academy Press.*) Our adjustment effectively assumes that the income required for two children is 1.62 times the need for one child, and that three children require 2.2 times the need for one.

[6]For poverty and deep poverty estimates, we use the Supplemental Poverty Measure thresholds.