A UNIVERSAL CHILD ALLOWANCE: A plan to reduce poverty and income instability among children in the US

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Consensus on key principles: universal; frequent (monthly); adequate ($250/month/child); perhaps more generous for younger children but less generous for additional children.

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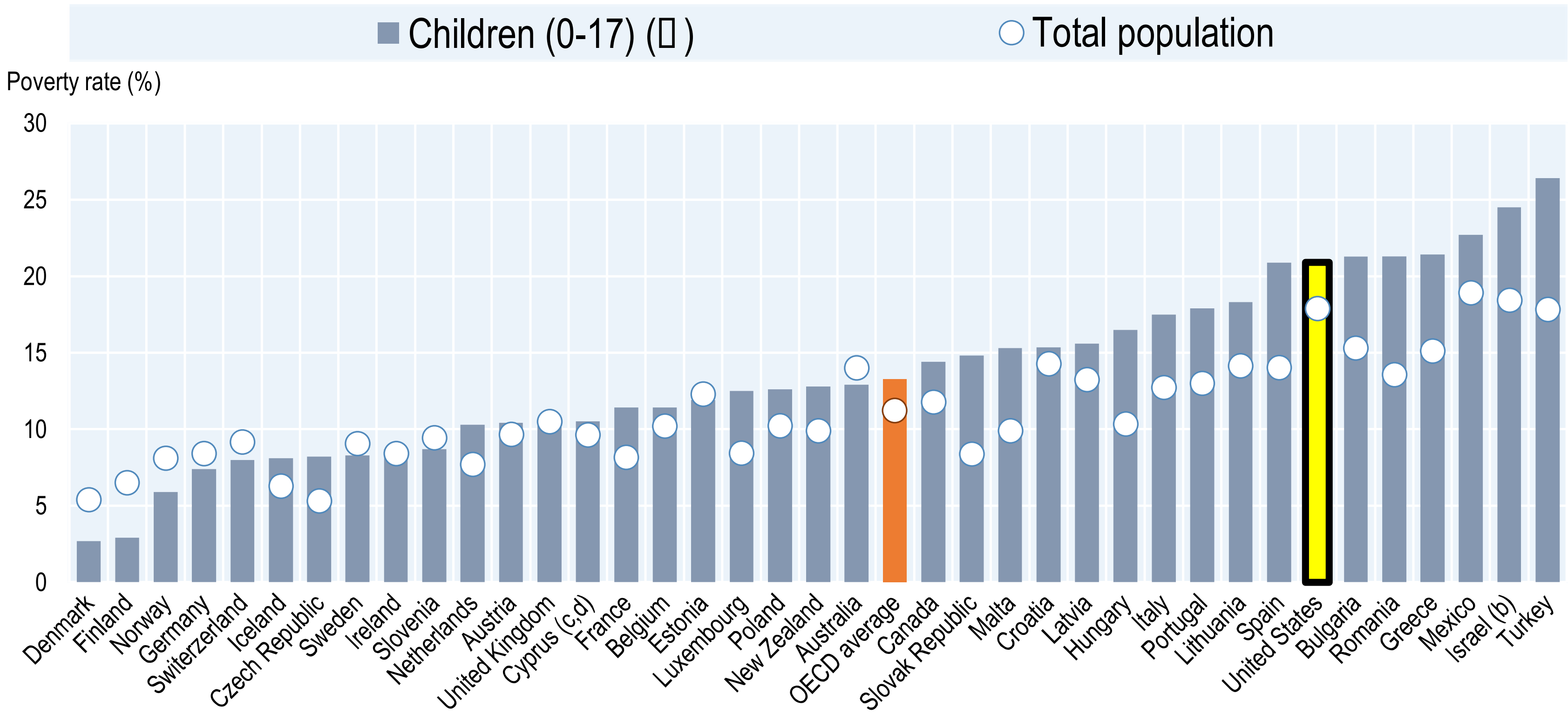
Figure 2 Child income poverty rates, 2012[a]

Share (%) of children (0-17) that live in households with an equivalised post-tax and transfer income of less than 50 percent of the national annual median equivalised post-tax and transfer household income

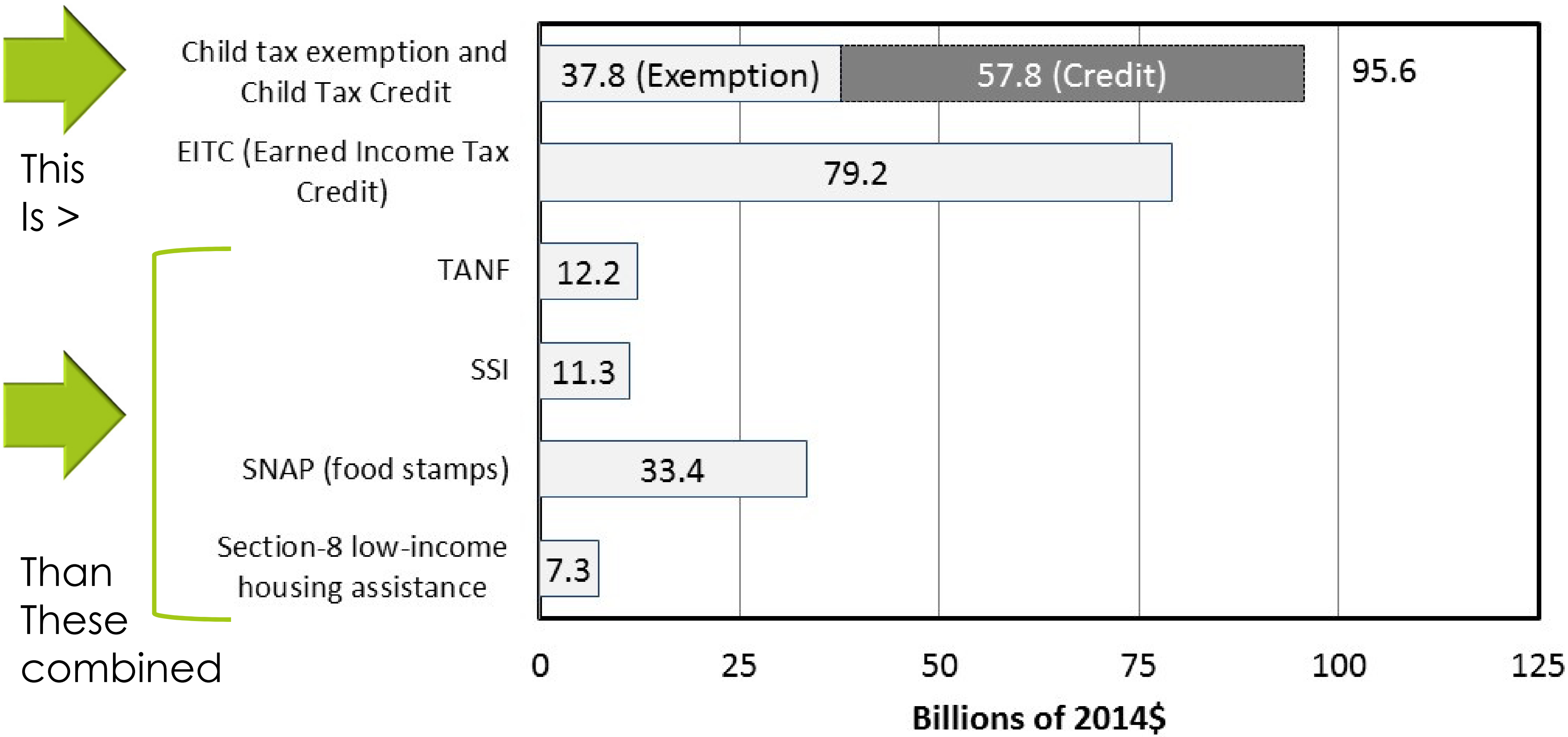


Countries with some form of a child allowance: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Luxembourg, the Netherlands, Norway, Sweden, Switzerland & U.K.

CHANGES IN THE SAFETY NET

- The U.S. has increased its financial commitment to fighting poverty substantially over the past half century through refundable tax credits and in-kind aid
- More aid is now directed to low-income working families
- Less aid to families who are unable to maintain stable employment
- Only ¼ of TANF dollars go toward basic assistance
- Other uses include child care subsidies and state EITCs. Very little is spent on helping recipients find work
- TANF was not responsive to the rise of poverty and unemployment during the Great Recession

Figure 1:Federal Expenditures on Major Cash and Near-Cash Programs for Children, 2014 (billions of 2014 dollars)



Data on child tax exemption and Child Tax Credit come from the Center for Tax Policy. Other data are adapted from Julia Isaacs, Sara Edelstein, Heather Hahn, Ellen Steele & C. Eugene Steuerle KIDS'SHARE2015: Report on Federal Expenditures on Children in 2014 and Future Projections, Urban Institute, 2015. Data are based on outlays, rather than appropriated or authorized levels. Child Tax Credit and Earned Income Tax Credit amounts include both tax expenditure and refundable portions of the credits. Child Tax Credit amount includes the Additional Child Tax Credit.

WHY A MONTHLY CHILD ALLOWANCE?

- Increased income may allow parents to increase investments in children, improving child health/development
- Increased income may reduce family and environmental stress, which can improve child health and development
- Poverty can compromise parents' cognitive "bandwidth," with detrimental consequences for cognitive tasks and decision-making
- Families well up the economic ladder face substantial intra-year volatility in income ***and*** expenses
- Conceptual linkages between income and the child development suggest dependable monthly income support would have substantial benefits

BASING POLICY ON PRINCIPLES

CONSENSUS

- The child allowance should be universal, recognizing that all families incur substantial expenses when raising children
- The allowance should be accessible and of sufficient frequency to meet short-term cash needs. We propose monthly distribution
- Payments should be adequate for a family to address basic needs of children—we recommend $250/ month

IMPORTANT CONSIDERATIONS

- Families with younger children should be eligible for larger payments
- Per-child payments should decline with additional children

Three proposed versions of a child allowance

Simple: Monthly payments of $250 per child per month for all children under age 18.

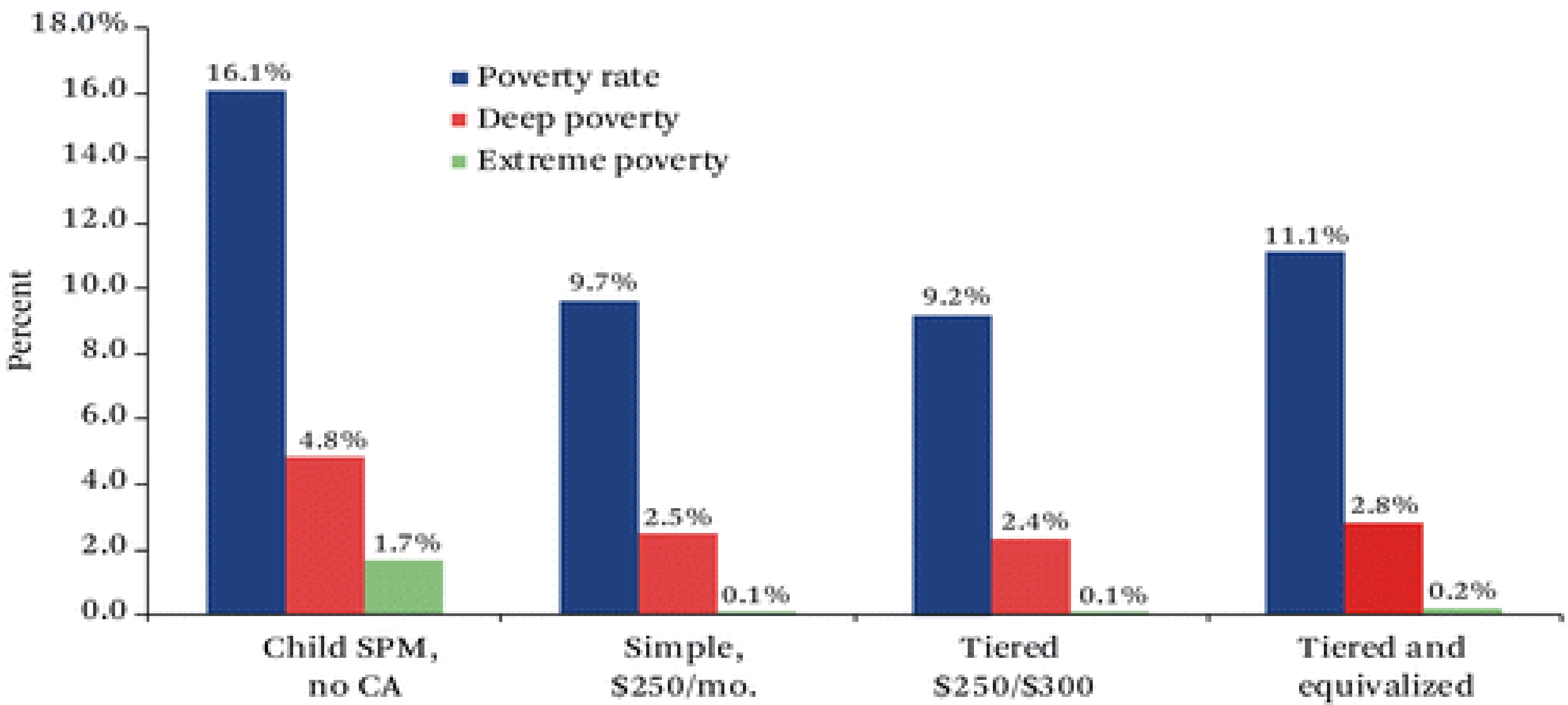
Tiered: Monthly payments of $300 per child under age 6, $250 per child age 6-17.

Tiered and Equivalized: Monthly payments of $300 for the first child under age 6 and $250 for the first child age 6-17, with a reduction in these benefit levels as the number of children in the household increases.

In each case, payments would be taxed at the marginal tax rate of the unit claiming the child.

Our 3 alternative models reduce poverty substantially – at a cost of $69-108 billion.

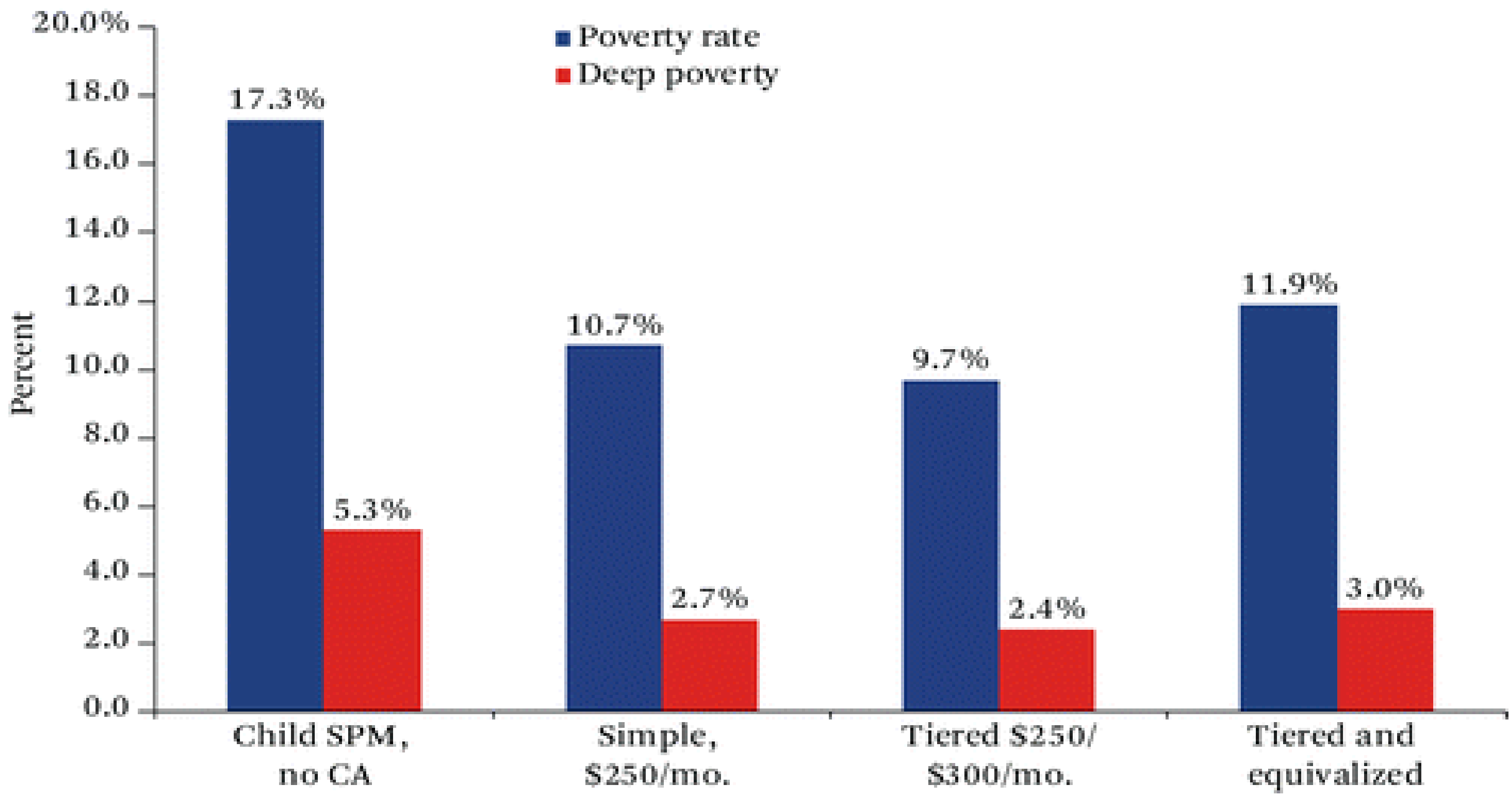
Figure 3. Child Poverty Falls Dramatically with a Universal Child Allowance



Source: Authors' calculations based on CPS ASEC data (Flood et al. 2017).

POVERTY EFFECTS (CPS ASEC)

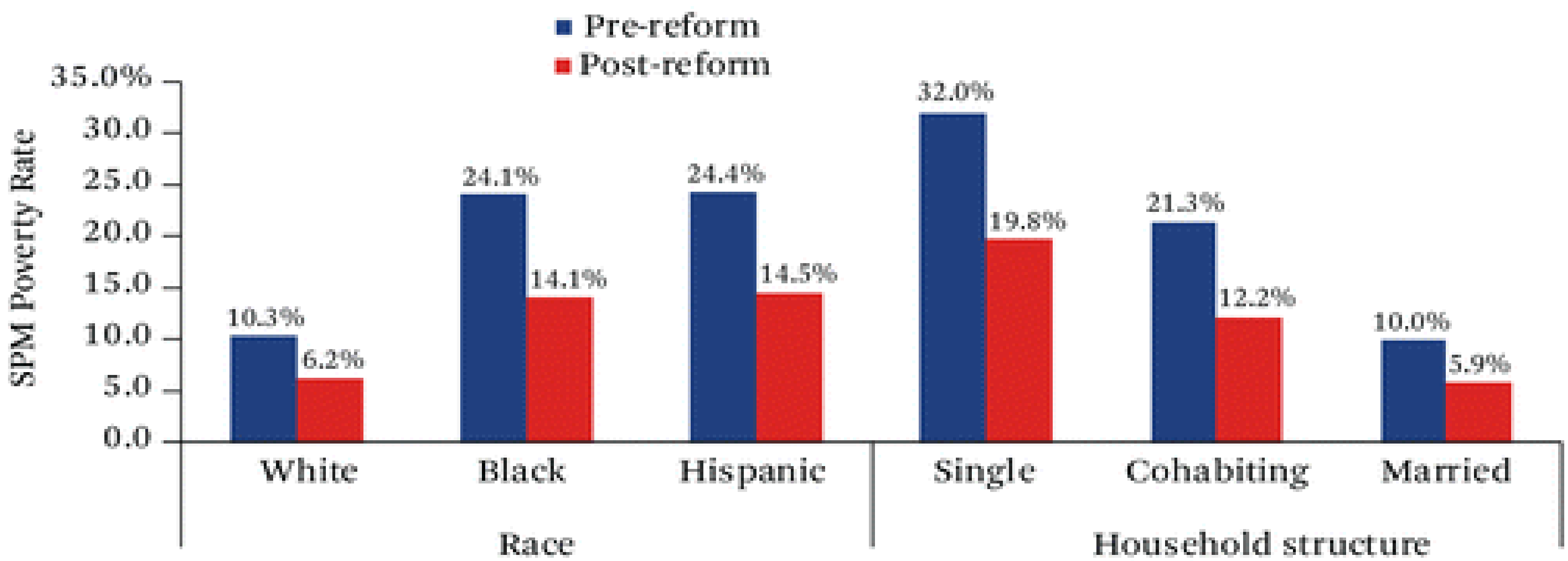
Figure 4. Young Child Poverty Falls Dramatically with a Universal Child Allowance



Source: Authors' calculations based on CPS ASEC data (Flood et al. 2017).

Poverty Reductions would be Broad-Based

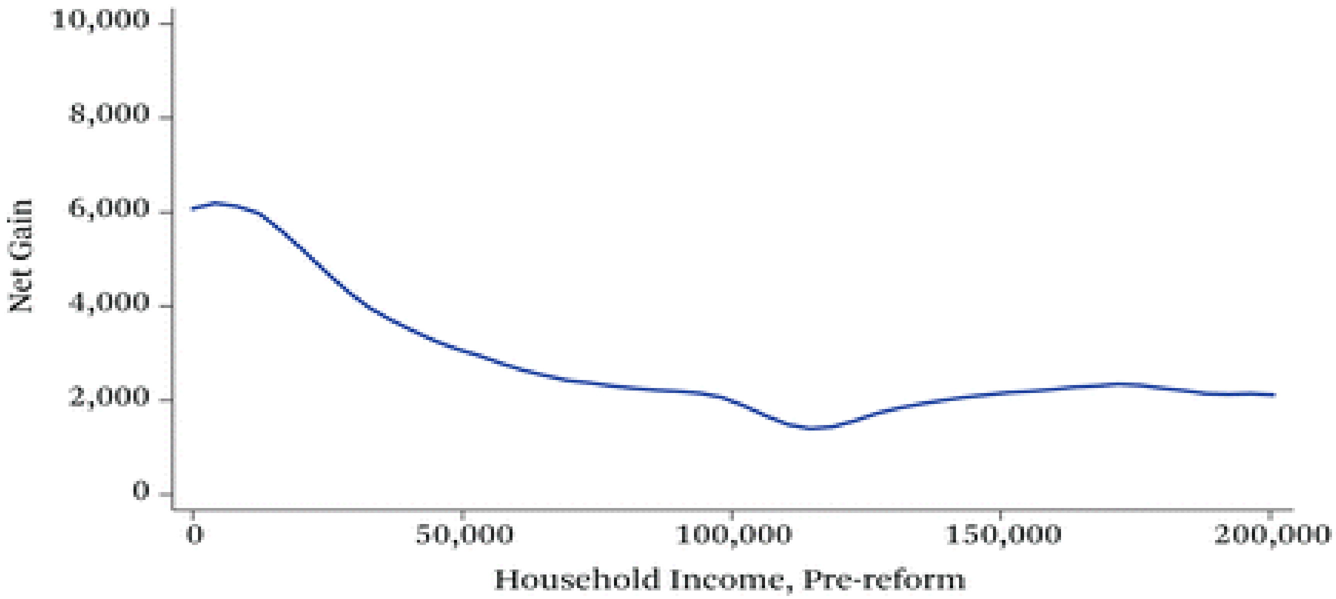
Figure 5. Poverty Rates for Children Within Demographic Groups



Source: Authors' calculations based on CPS ASEC data (Flood et al. 2017).

All Would Gain, but Larger Gains Would Accrue to the Most Disadvantaged

Figure 6. Net Gain in SPM Resources for Recipient Families



Source: Authors' calculations based on CPS ASEC data (Flood et al. 2017).
Note: The net gain in does not account for the $93 billion additional cost of the child allowance, only the net gain of the child allowance subtracting the CTC and child exemption.

PAYING FOR IT

Table 1: Cost Estimates of Universal Child Allowance Proposals (in billions)

	Total Direct Cost	Cost Savings*	Net Cost of CA:
Universal $250/mo. CA	$192	$96	$96
Tiered $250/$300/mo. CA	$204	$96	$108
Tiered and equivalized CA	$165	$96	$69

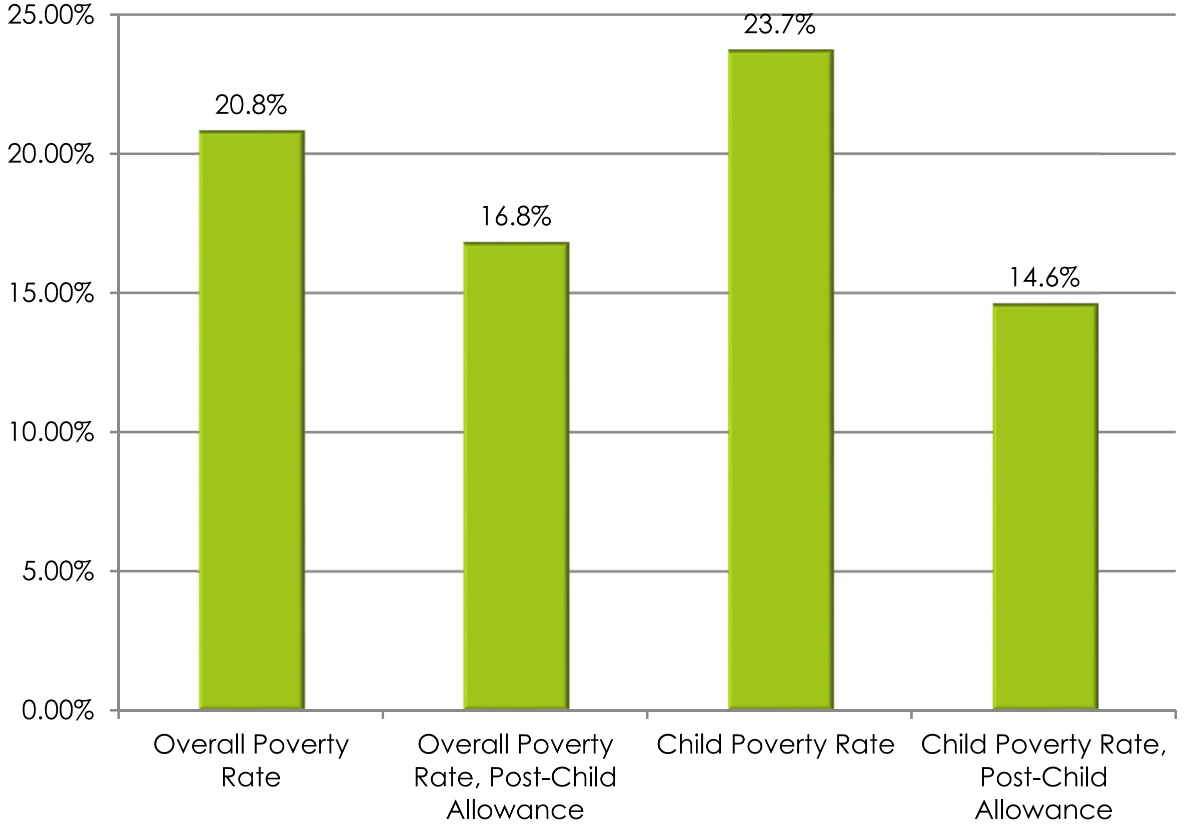
* Cost savings are the estimated results of eliminating the CTC, ACTC, and also the child exemption under federal tax law. Estimates provided by Elaine Maag at the Urban Institute's Tax Policy Center, 2016.

TPC estimates that the net cost of the Lee-Rubio Refundable CTC expansion would be $130 in 2015

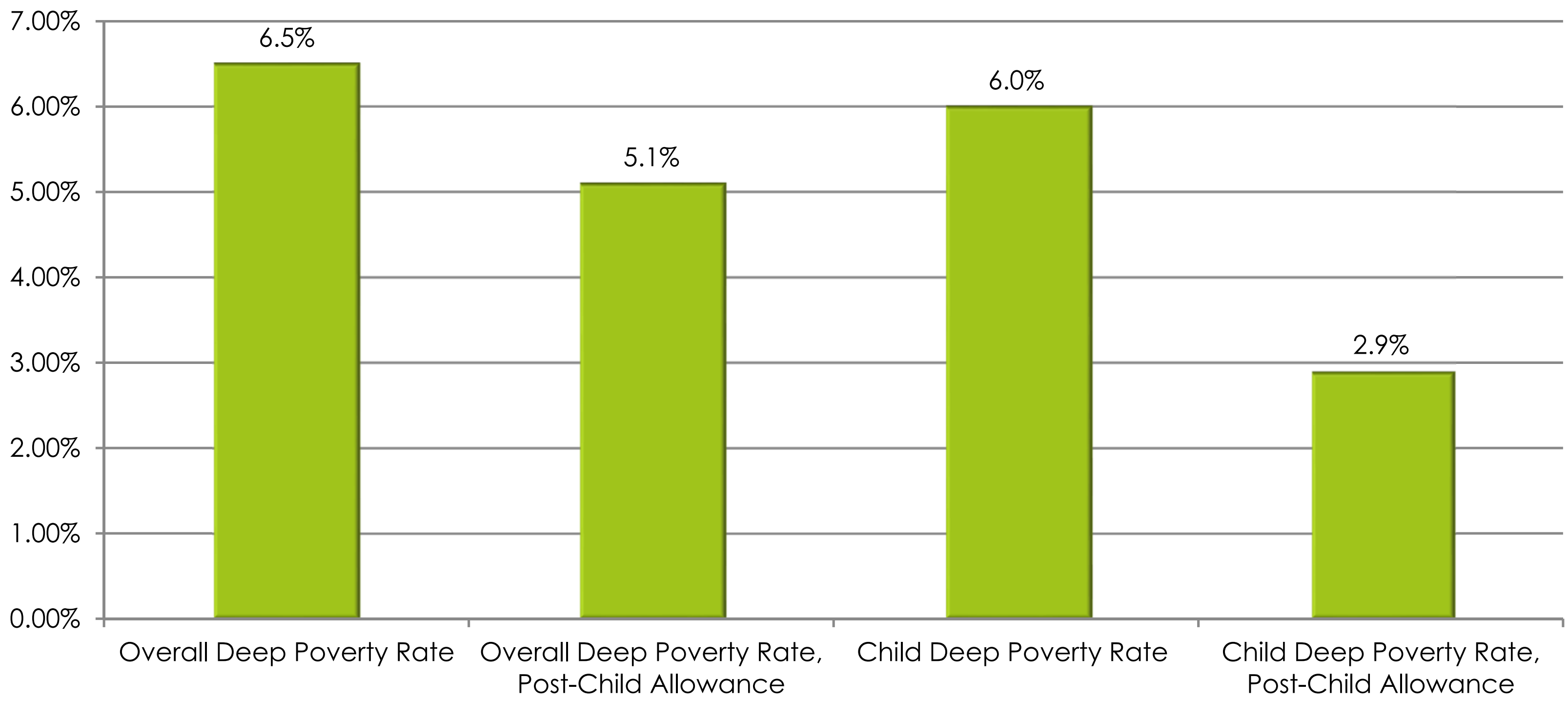
TPC estimates that the net cost Clinton Refundable CTC expansion would cost $20 billion

http://www.taxpolicycenter.org/publications/preliminary-analysis-family-fairness-and-opportunity-tax-reform-act/full

Effects are similar in California



Also for Deep Poverty



SUMMARY

- Child poverty in the U.S. remains stubbornly high
- Much of the benefit from the Child Tax Credit & Child Tax Exemption goes to families with incomes above poverty
- The work-based social safety net has expanded significantly
- Yet our most vulnerable families—who cannot maintain regular employment—can fall through the cracks, especially in terms of cash aid
- A stable source of income could reduce material hardship and improve child health and development
- We propose a universal, monthly child allowance to provide all children with a dependable cash income floor

CONCLUDING REMARKS

- Through the child tax exemption and child tax credit, our nation recognizes the societal benefit to supporting parents in raising children
- But our biggest policies exclude the lowest income families, and are not equitable
- Our universal child allowance would recognize that raising children is expensive
- It would provide a stable cash income flow for families struggling with intra-year income/expense volatility
- It would complement our work-based safety net
- And would dramatically reduce poverty
- Costs are not inconsequential, but so may be the benefits

Thanks

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