A CHILD ALLOWANCE: THE BIG ANTIPOVERTY IMPACTS OF SMALL AMOUNTS OF CASH

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INTRODUCTION

Child allowances represent a bold effort to get to the core of the problem of child poverty—the inability to pay for basic needs. Mounting evidence indicates that targeted aid to families provides not only immediate gains in poverty reduction but also lifelong benefits in terms of childhood development. There is growing momentum inside and outside Congress to adopt child allowances in the United States—following nations like Canada, Great Britain, and numerous other countries in the industrialized world.

RESEARCH

A little bit of cash goes a long way in the lives of children living in poverty. That's the great news from an impressive and growing body of research. When the Cherokee Nation built a casino in a poor region of North Carolina, each Cherokee family received $4,000 per year, creating a natural experiment, using Anglos not eligible for this help as the control. Researchers at Duke University were able to track children of participating families into adulthood and found that they "used *less alcohol and fewer drugs*, were less likely commit *minor crimes*, and [were] more likely to *graduate from high school*" (emphasis added).[1]

Careful research on the earned income tax credit (EITC), which provides an annual cash supplement averaging around $3,000, echoes the powerful results of the Cherokee experiment. The EITC reduces the incidence of low birth weight, increases test scores in elementary and middle school, and improves high school graduation rates. The extra income is especially important in the crucial early childhood years: a modest $3,000 annual increase in family income between a child's prenatal year and fifth birthday, regardless of the source, is associated with 19% higher earnings and a 135-hour annual increase in work hours in adulthood.[2]

PUTTING RESEARCH INTO ACTION

Child allowances. Based on this powerful evidence, leading poverty researchers and major political leaders have called for a universal child allowance. The idea is quite simple. Universal child allowances provide a regular monthly cash payment to households raising dependent children. Unlike means-tested benefits such as food stamps or welfare, universal child allowances are available to all households raising children (some countries tax them at higher income levels). The leading thinkers supporting a child allowance range from liberal antipoverty icons such as Columbia's Jane Waldfogel[3] to conservative scholar Samuel Hammond from the Niskanen Institute.[4]

Child allowances are widely used across the industrialized world. Austria, Australia, Canada, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Norway, Sweden, and the United Kingdom all have child benefits, with payments ranging from US$1,800 to US$8,000 per year.[5] Canada recently increased its child benefits to just under C$6,400 per year for children under six (C$5,400 per child for older children).[6] The child benefit was the centerpiece in the United Kingdom's campaign that lifted 800,000 children out of poverty in a decade.[7]

CURRENT PROPOSALS

In October 2016, a group of the nation's leading poverty researchers came together on a child allowance proposal with five main principles: (1) every child at a given age should receive the same benefit, (2) payments should be frequent enough to meet short-run cash needs, (3) payment levels should be adequate for a family to address the basic needs of its children, (4) families with younger children should be eligible for larger payments, and (5) per-child payment levels should decline with additional children. The group proposed a payment of $300 per month for young children and $250 per month for older children, paid for in part by consolidating the then-current (pre–tax reform) child tax credit and personal exemptions for children (the latter since eliminated by the Tax Cuts and Jobs Act passed in December 2017).[8]

British child benefits are paid by the social security system (under the Department for Work and Pensions), and the Social Security Administration would be an effective vehicle for distribution in the United States. However, legislation before Congress has proposed reforming the child tax credit and the refundable additional child tax credit. For example, the American Family Act of 2017,[9] introduced by Senators Sherrod Brown (D-OH) and Michael Bennet (D-CO), would establish a new young child tax credit of $300 per child per month for children under 6 and increase the existing child tax credit to $250 per month, extending it to 17- and 18-year-olds.[10] Unlike the current child tax credit, the payments would be made on a monthly basis by the

Treasury Department as an advance credit, rather than as a lump sum at tax time. For all intents and purposes, the American Family Act would turn the child tax credit into a child allowance. In the House, the Child Tax Credit Improvement Act, introduced in early 2017 by Representative Rosa DeLauro (D-CT-3) led the way with a proposal for a $3,600 per young child tax credit that would also be paid out in advance like a child allowance.[11]

Such proposals would fix a major flaw in the current child tax credit, which excludes families with less than $2,500 in annual earnings and provides only a partial child tax credit to working poor families. For similar reasons, the previous (pre-2018) child tax credit reduced the percentage of children in deep poverty by only 0.2 percentage points.[12] The Tax Cut and Jobs Act does increase the maximum refundable child tax credit by 40 percent, from $1,000 to $1,400 per child, but by continuing to limit refundability among the poorest families, it still leaves 10 million children with either no increase or a token increase of less than $75.[13]

Child allowances deliver large antipoverty impacts. At its core, poverty amounts to a lack of financial resources for basic needs, and a cash child allowance is one of the most efficient ways to make a big reduction in poverty. A Columbia University analysis of the Brown-Bennet American Family Act found that it would cut child poverty in half, lifting 5.3 million children out of poverty and 1.9 million families out of deep poverty (below 50 percent of the poverty line).[14] Moreover, it would virtually eliminate extreme poverty among children, defined by researchers Kathryn Edin and Luke Shaefer as living on less than $2 per person cash per day.[15]

Child allowances add incremental costs in exchange for big poverty reductions. The academic poverty experts who proposed a child allowance in 2016 estimated that their core proposal ($250 per month for all children) would cost $75 billion more per year than the then-current child tax credit and tax exemption, approximating the cost of the proposed American Family Act.[16] And even over 10 years, it would offer less in relief than Congress recently gave to multinational corporations—and would make sure that the human side of our economy has a brighter future.

Cash works in multiple ways. Researchers are learning more about how extra cash income produces the kinds of results that have been witnessed with the earned income tax credit and experiments such as the Cherokee Nation program. First, at least in the

British example, families recognized this money as being specifically for their children and spent it on learning and health items such as books and fruits and vegetables.[17] Moreover, sufficient cash appears able to ease family stress[18] that has been shown to be physiologically toxic to developing children[19] in ways that impinge on long-term development.

CASH ALLOWANCES

Some might mistake child allowances (and refundable tax credits) to be a form of welfare. Actually, however, by providing benefits universally, child allowances eliminate the "cliffs" in public benefits programs that may dissuade poor people from working. In fact, Canada found that larger child benefits increased levels of employment of mothers, who were able to use child benefits as work support that made it easier for them to work outside the home.[20]

Child allowances are not a silver bullet. Although child allowances must be one of the leading planks of a national commitment to end child poverty, they are not a silver bullet. While some families might use a child allowance for child care expenses, the funds are not nearly enough to pay for evidence-based, high-quality early education that propels school readiness. They won't reduce the need for universal children's health insurance or for increasing the stock of affordable housing or child nutrition programs such as school meals. Rather, they should be seen as the floor of fungible cash income that enables families to have the resources to meet the most basic needs.

CONCLUSION

Just a few years ago, the child allowance was unheard of in American policy circles. It's great news for children that major leaders in and out of Congress are recognizing the power of this potential policy to reduce child poverty immediately and propel all children to less stress, better health and education, and a chance to live out their full potential.

ENDNOTES

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