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The Costs and Benefits of a Child Allowance

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Income is an important driver of children's wellbeing and eventual long-term success. But the United States does not currently guarantee income support universally to children. Under the federal tax code, the U.S. provides a Child Tax Credit of $2,000 per child for almost 2/3 of American children, but roughly a third of children live in families whose incomes are too low to receive the full credit, and 1 in 10 children qualify for no benefit at all. In this research brief, we summarize results from our study "A Cost Benefit Analysis of a Child Allowance"[1] to document the costs and benefits of making the Child Tax Credit fully refundable and increasing its value to levels proposed in the American Family Act and President Biden's American Rescue Plan: $3,600 for children ages 0 to 5 and $3,000 for children ages 6-17.[2]

Key Findings

- High quality research finds that cash and near-cash benefits increase children's health, education, and future earnings and decrease health, child protection, and criminal justice costs.
- The value to society that flows from these impacts is nearly eight times the annual costs.
- Converting the current Child Tax Credit to a child allowance—by making it fully refundable, increasing its value to $3,600 per child age 0-5, $3,000 per child age 6-17, and distributing it monthly—has a gross cost of about $100 billion, a net cost of only $16 billion and generates about $800 billion in benefits to society.

We estimate costs with a micro-simulation analysis. We estimate benefits with a comprehensive literature review of the highest quality evidence on the causal effects of income transfers on: children's future earnings; involvement with child protection and criminal justice services; and, both children's and their parents' health and longevity. Future benefits and costs are discounted using an interest rate of 3%.

Initial fiscal costs of the American Family Act's expansion of the Child Tax Credit equal roughly $100 billion per year.[3] The present discounted value of current and future benefits for society equals roughly $794 billion, or approximately eight times initial costs. Recipients of the transfer gain $810 billion per year. Each year, taxpayers recoup $84 billion of the $100 billion investment.

1 *Garfinkel, I., Sariscsany, L., Ananat, E., Collyer, S., & Wimer, C. (2021). The costs and benefits of a child allowance. CPSP Discussion Paper.*

2 *The analysis is also relevant to Senator Romney's child allowance proposal. Though we have not yet analyzed Romney proposal, it is clear that because it is financed largely through cuts in other programs that aid the poor, it reduces child poverty less than the AFA and would therefore produce correspondingly lower benefits than the AFA.*

3 *Other recent cost estimates are $110 to $120 billion per year. If more dollars are transferred, benefits would increase nearly in proportion to costs.*

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Table 1: Annual Cost and Benefits of the American Family Act by Income Class
(in $Billions)

	Costs	Benefits per family
Overall	$99.7	$2,630
Low Income: Under $50,000	$60.4	$3,757
Moderate Income: 50,000 to 100,000	$22.0	$2,252
Higher Income: $100,000 +	$17.3	$1,431

Note: In this analysis, we refer to tax units (including tax filers and their dependents) as families. We categorized income levels using the Adjusted Gross Income amount of the family (i.e., tax unit), as calculated by TAXSIM27. Feenberg, Daniel Richard, and Elizabeth Coutts, An Introduction to the TAXSIM Model, Journal of Policy Analysis and Management vol 12 no 1, Winter 1993, pages 189-194.
Source: Authors' calculations using the 2017-2019 Current Population Survey

Table 1 presents results from the micro-simulation analysis of the American Family Act. The micro-simulation model and data are described in greater detail in "A Cost-Benefit Analysis of a Child Allowance." Of the $99.7 billion per year in initial spending, about 60% would go to children in families making less than $50,000, another 22% to those in families earning $50,000 to $100,000, and the remainder to those in higher-income families. The average benefit paid per family declines as income increases because the richer two-thirds of children already get the full $2,000 per child from the federal child tax credit and because the credit begins to phase out for higher income families and individuals. The distribution of the benefit payments is important because both common sense and research suggest that children and parents in middle- and upper-income families see their outcomes improve less from an equal increase in family income than do children and parents in lower-income families.

While the initial costs may appear large, they are small compared to the very large monetary benefits that would eventually accrue to recipients and society from investing in children. Our analysis is based on a systematic review of only the most rigorous studies that establish the causal effects of existing cash and near-cash transfers—such as Food Stamps and the EITC—on children and parents in low-income families. We found 21 studies that met our stringent criteria. The search process and criteria are described in full in "A Benefit-Cost Analysis of a Child Allowance." For child beneficiaries we found studies that document impacts on birth weight, neo-natal mortality, health status during childhood and adulthood, educational attainment, earnings, longevity, and involvement with child protective services and criminal justice services. For parents, we found studies on health, mental health, and longevity. We standardize the findings across studies to reflect the effects of an increase in family income of $1,000 per year. Appendix Table A1 summarizes the impact estimates from the studies reviewed and Appendix C lists the full citations to the studies.

With one exception, all the studies find positive impacts. Most find statistically significant impacts. With the exceptions of neonatal mortality, involvement with criminal justice services and child protective services, there are at least two studies for each impact. Together, the impact estimates present a strong and coherent set of results; child allowances are a winning investment in our children's future mobility and their parent's health and longevity.

Table 2 presents the present discounted value of aggregate benefits and costs of the American Family Act. Converting the impact estimates in Appendix Table A1 to estimates of the present discounted value of costs and benefits in Table 2 involved additional calculations and data as described in Appendix A.

Table 2: Present Discounted Value of Aggregate Monetary Benefits and Costs of the American Family Act: Using Mean Impact Estimates
(in $Billions)

	Beneficiary	+ Taxpayers	= Society
Increased future earnings of child beneficiaries	$ 76	0	$ 76
Increased future tax payments by child beneficiaries	-$ 16	$ 16	0
Decreased neo-natal mortality	$ 0.6	0	$ 0.6
Increased children's health and longevity	$ 536	0	$ 536
Increased parent health and longevity	$ 106	0	$ 106
Reduced other transfer costs	-$ 0.9	$ 0.9	0
Reduced expenditures on child protection	0	$ 14	$ 14
Increased safety from reductions in crime	0	$ 5	$ 5
Reduced expenditures on children's and parents' health care costs[a]	$ 6	$ 58	$ 65[e]
Decreased parent tax payments[b]	$ 2	-$ 2	0
Child Tax Credit transfers	$ 100	-$ 100	0
Administrative costs[c]	0	-$ 0.4	-$ 0.4
Excess burden for taxpayers[d]		-$ 8	-$ 8
Total[f]	$ 810	-$ 16	$ 794

Notes

a. Reductions in health care expenditures reduce both out-of-pocket costs to beneficiaries and public and private insurance costs to taxpayers. Out-of-pocket medical expenditures are about 2% of GDP and insurance costs about 18% of GDP (Center for Medicare & Medicaid Services (2018)). Thus, we allocate 10% (2/20) of benefits to beneficiaries and 90% (18/20) to taxpayers.

b. Details on how we estimated decrease in parent tax is included in our paper "A Benefit-Cost Analysis of a Child Allowance."

c. Based on administrative costs of Social Security benefits, we set administrative costs to .4% of gross costs of the allowance.

d. Excess burden is assumed to be equal to 30% of the difference between the net decrease in the present discounted value of taxes minus 1/3 of the present discounted value of the reduced expenditures on health care costs, as 1/3 of these savings accrue from reductions in health insurance premiums rather than reductions in taxes.

e. The benefit to society may not be exactly the sum of benefit for beneficiary and taxpayers due to rounding

f. The number in the column may not be exactly the sum of number in the column due to rounding

Table 2 shows that children's future earnings in adulthood increase by $76 billion, $16 billion of which is recouped by taxpayers in the form of higher tax payments from these higher earnings. The extraordinarily high total benefits for beneficiaries, and society as a whole, are driven primarily by increases in children's health—nearly $536 billion for a $100 billion initial expenditure. Considered as a health investment alone, a child allowance is a remarkably good investment. These improvements in health, in turn, drive taxpayer savings of $58 billion in health care costs. Taxpayers also experience gains of $14 billion and $5 billion respectively from reductions in child protective service use and criminal justice costs. The present discounted value of current and future benefits for society equals nearly $800 billion, or roughly eight times initial costs.[4]

4 *Holzer et al. find that the annual cost of child poverty is nearly 4% of GDP, or nearly $700 billion per year. While their estimate appears close to ours, that is happenstance. There are at least three reasons that their estimate differs from ours. First, they count benefits only from eliminating poverty. We count benefits that extend to children from nearly all families, not just those who live in poor families. Second, the child allowances we model do not eliminate child poverty, but only cut it by 45%. Third, they use a different methodology, which begins with differences in experiences between children who grow up in poverty and more fortunate children and adjusts for differences in heredity between the two groups. Hendren and Sprung-Keyser are closer to our approach in that they begin with quasi-experimental and experimental studies, but they only measure the benefits from each study independently rather than finding the central tendency of estimates for each margin. Fourth, with no explanation, they place a strikingly low value on life that is not consistent with other literature. We use their valuation as a lower bound in our sensitivity analyses. They also use a marginal value of public funds rather than a cost/benefit framework.*

Recipients of the transfer gain $810 billion. Taxpayers recoup $84 billion of their initial investment of $100 billion and consequently the net costs to taxpayers is only $16 billion. We also conducted several sensitivity analyses. (See Appendix B and Appendix Table B1). The sensitivity analyses indicate that there is a fair range of uncertainty about precisely how good an investment AFA represents. But in the current context, the most plausible estimates range from AFA being a very good to extraordinarily good investment in our Nation's future.

Appendix A: Conversion of Impact Estimates to Present Discounted Values

Table A1: Estimated Impacts of a $1,000 Increase in Household Income as a Result of a Cash or Near-cash Transfer

Panel A: Impact studies used for the calculation of benefits		Panel B: Supplementary impact studies	
Author	*Impact*	*Author*	*Impact*
Children's earnings		**Birthweight**	
Price & Song (2018)	-0.14%	Hoynes et al. (2015)	0.05%*
Bailey et al. (2020)	0.35%*	Kehrer & Wolin (1979)	0.91%+
Bastian and Michelmore (2018)	0.37%+	Almond et al. (2011)	2.20%+
Aizer et al. (2016)	1.27%*	Markowitz et al. (2017)	3.62%*
Hoynes et al. (2016)	1.30%		
Children's health		**Child educational attainment**	
Bailey et al. (2020)	0.04%	Thompson (2019)	0.04%*
Averett and wang (2018)	0.28%	Bastian & Michelmore (2018)	0.05%*
Hoynes et al. (2016)	0.33%*	Maxfield (2013)	0.06%*
Price and Song (2018)	-0.01%	Akee et al. (2010)	0.07%- 0.14%+
Child longevity		Michelmore (2014)	0.21%*
Bailey et al. (2020)	0.05 years*	Aizer et al. (2016)	0.37%
Aizer et al. (2016)	0.11 years*		
Crime		**Child receiving high school diploma**	
Bailey et al. (2020)	-0.02%*	Thompson (2019)	0.01%*
Child protection		Akee et al. (2010)	0.01-0.64%+
Berger et al. (2017)	0.27 pp	Bastian & Michelmore (2018)	0.16%*
Parent health		Michelmore (2014)	0.62%*
Larrimore (2008)	0.27 pp	Maxfield (2013)	0.70%*
Morgan et al. (2020)	0.33 pp*	**Parent mental health**	
Evans & Garthwaite (2014)	0.97 pp	Averett and Wang (2018)	0.28%
Price and Song (2018)	-0.7% pp*	Gangopadhyaya et al. (2020)	0.96%*
Parent longevity		Boyd-Swan et al. (2016)	2.85%*
Price and Song (2018)	-0.15%		
Aizer et al (2020)	2%		

Notes: *Results were statistically significant + Includes both statistically significant and non-significant results for two or more measures of the same outcome

Table A2: Present Discounted Value of Monetary Benefits and Costs of a Child Tax Credit Per $1,000 Increase in Household Income: Using Mean Impact Estimates

	Beneficiary +	Taxpayers =	Society
Increased future earnings of child beneficiaries[a]	$ 1,060	0	$ 1,060
Increased future tax payments by child beneficiaries	-$ 223	$ 223	0
Decreased neo-natal mortality	$ 9	0	$ 9
Increased children's health and longevity	$ 7,504	0	$ 7,504
Increased parent health and longevity	$ 1,487	0	$ 1,487
Reduced other transfer costs	-$ 12	$ 12	0
Reduced expenditures on child protection	0	$ 197	$ 197
Increased safety from reductions in crime	0	$ 74	$ 74
Reduced expenditures on children's and parents' health care costs[a]	$ 91	$ 815	$ 906
Decreased parent tax payments[b]	$ 64	-$ 64	0
Child Tax Credit transfers	$ 1,000	-$ 1,000	0
Administrative costs[c]	0	-$ 4	-$ 4
Excess burden for taxpayers[d]		-$ 6	-$ 6
Total	$ 10,980	$ 247	$ 11,227

Notes:

a. Reductions in health care expenditures reduce both out-of-pocket costs to beneficiaries and public and private insurance costs to taxpayers. Out-of-pocket medical expenditures are about 2% of GDP and insurance costs about 18% of GDP (Center for Medicare & Medicaid Services (2018)). Thus, we allocate 10% (2/20) of benefits to beneficiaries and 90% (18/20) to taxpayers.

b. Details on how we estimated decrease in parent tax is included in our paper "A Benefit-Cost Analysis of a Child Allowance."

c. Based on administrative costs of Social Security benefits, we set administrative costs to .4% of gross costs of the allowance.

d. Excess burden is assumed to be equal to 30% of the difference between the net decrease in the present discounted value of taxes minus 1/3 of the present discounted value of the reduced expenditures on health care costs, as 1/3 of these savings accrue from reductions in health insurance premiums rather than reductions in taxes.

In this appendix, we describe how we convert the impact estimates presented in Table A1 above to the estimates of benefits and costs in Table A2 and Table 2 in the text. First, although they are equally as important as other benefits, we do not include children's birthweight, children's educational attainment, or parent mental health in our calculation of benefits because it would involve double counting (since we measure downstream outcomes including child mortality and longevity, child earnings, and adult overall health). Second, where we had more than one estimate of impact, we used the means of the impacts. Third, based on research on the proportion of income that is paid in all forms of taxes,[5] we assumed that 21% of the increase in children's future earnings would be paid in future taxes. We find that among the poorest 40% of households, 21% of the increase in earnings would be paid in federal, state, and local taxes (personal and corporate income, payroll, property, sales, excise, and estate taxes). We also used CBO estimates of the value of life–$10 million–and of a health-quality-adjusted year of life of $128,000 to value

5 *Wamhoff, S. & Gardner, M. (2019). Who pays taxes in America in 2019? Institute on Taxation and Economic Policy. https://itep.org/who-pays-taxes-in-america-in-2019/*

the health impacts to child and parent recipients.[6] To convert the health impacts for child and parent recipients to reductions in future health expenditures, based on empirical analyses of the relationship of health to health expenditures, we assume that a 1% increase in health leads to a .90% reduction in health expenditures.[7] We used similar types of supplementary literature to value reductions in child protective services and criminal justice costs.

Table A2 presents the costs and benefits of increasing household incomes of low-income families by $1,000. We find that increasing household incomes by $1,000 would result in $10,980 in benefits per child per year to recipients and $11,227 to society as a whole. Taxpayers themselves receive back about 75% of their initial $1,000 investment in each low-income child.

Finally, we convert the estimates of costs and benefits per $1,000 increase in income for low-income families to aggregate national benefits and costs for the AFA. The initial cost from the simulation reported in Table 1 is $99.7 billion. Average benefits per tax unit are $2,630. We therefore multiply our estimates of benefits and costs for a $1,000 increase in household income by the ratio of $2,630/$1,000.

Children across the income distribution would see income gains under the AFA. Research finds that the return to income on long-term outcomes for children is smaller for middle- and higher-income families relative to low-income families,[8] meaning that the impact of the AFA on the outcomes would be greatest for low-income families. However, the literature on how much smaller gains for middle- and upper-income families is sparse. To adjust for the different impacts by family income levels, we assume that children and parents with incomes below $50,000 get the full benefits that have been well-identified for low-income families described in Table A2, while those with incomes between $50,000 and $100,000 get half the full benefits, and those with income above $100,000 get no benefit in terms of improved outcomes from the expanded child tax credit.

Appendix B: Sensitivity Analyses

The top panel of Table B1 examines alternative assumptions in our calculations one at a time. Each row presents the results of one deviation from our baseline assumptions. We order the results by lowest (generated by our most restrictive set of alternative assumptions) to highest (generated by our least restrictive set of alternative assumptions) social benefits. Our main results for recipients and society as a whole are driven by the high value—$10 million per life according to the CBO, or $128,000 per healthy year—that we as a society place on health and life. If we made a much more restrictive valuation of health and life, at only 1/10th that value, the health benefits would be only 1/10th as large, and benefits as a whole to society decline from over $794 billion to $216 billion. Similarly, using the smallest positive estimates of impacts instead of average estimates reduces social benefits to $432 billion. Assuming a steeper decline in return to additional income, i.e., that families with incomes below $37,500 get 100% of the return, families with incomes between

6 To obtain the value of a healthy year, we divide the value of life—$10 million—by average life span in the US, which is now 78. The UN recommends valuing a health-quality-adjusted year at between 1 and 3 times GDP, which in the US would be between $63,000 and $196,000. We use $128,000 because it falls in the middle of the range.

7 Desalvo, K. B., Jones, T. M., Peabody, J., Mcdonald, J., Fihn, S., Fan, V., He, J., & Muntner, P. (2009). Health Care Expenditure Prediction With a Single Item, Self-Rated Health Measure. Medical Care, 47(4), 440–447; Chern, J., Wan, T. T. H., & Begun, J. W. (2002). A Structural Equation Modeling Approach to Examining the Predictive Power of Determinants of Individuals' Health Expenditures. Journal of Medical Systems, 26(4), 323–336; Lima, V. D., & Kopec, J. A. (2005). Quantifying the effect of health status on health care utilization using a preference-based health measure. Social Science and Medicine, 60, 515–524. https://doi.org/10.1016/j.socscimed.2004.05.024.

8 Løken et al. (2012), using a natural experiment in Norway, find that effects of increases in family income on long-term child outcomes drop to zero for families with incomes above approximately $100,000 in current US dollars.

$37,500 and $75,000 get half the return, and families with incomes above $75,000 get nothing; or discounting benefits by 5% instead of 3%; or that a 1% increase in health reduces health care expenditures by 0.19%, rather than 0.9%; or assuming deadweight loss equals 50% rather than 30% of the difference between the net decrease in the present discounted value of taxes minus 1/3 of the present discounted value of the reduced expenditures on health care costs—all result in smaller effects. Total benefits with these assumptions range from $485 billion to $788 billion, or about 5 to 8 times costs. All results remain positive—benefits exceed costs. As shown later, even a combination of multiple very restrictive assumptions cannot drive the benefits to be lower than costs.

On the other hand, the less restrictive assumption that a 1% increase in health reduces health care expenditures by 1.5%, rather than .9%, increases the benefits to taxpayers from savings in health care expenditures substantially, leading taxpayers to eventually recoup about 130% of their initial investment. If returns to the transfer decline less steeply then we assume as family resources increase, then social benefits increase to $882 billion. Discounting future benefits by 1% rather than 3% or using maximum rather than mean impact estimates, by way of contrast, increases the value of future benefits to recipients, taxpayers and society as whole substantially—to between $1,560 and $1,900 billion.

Table B1: Sensitivity Analysis Results *(in $Billions)*

Panel A: One at a Time Variations	Beneficiary	Taxpayers	Society[a]
Lower-bound VSL & QALY (More restrictive)	$232	-$16	$216
Minimum positive benefits (More restrictive)	$466	-$33	$432
Discount rate of 5% (More restrictive)	$537	-$53	$485
Steeper benefit decline—37.5–75K (More restrictive)	$726	-$30	$695
Smaller health expenditure elasticity—.19% (More restrictive)	$805	-$71	$735
Baseline with greater deadweight loss—50% (More restrictive)	$810	-$22	$788
Baseline	$810	-$16	$794
Larger health expenditure elasticity—150% (Less restrictive)	$815	$30	$844
Less steep benefit decline—62.5–125K (Less restrictive)	$886	-$4	$882
Maximum Benefits (Less restrictive)	$1504	$56	$1560
Discount rate of 1% (Less restrictive)	$1706	$194	$1900
Panel B: Four Extreme and Near-Extreme Combinations			
Most Restrictive	$136	-$115	$21
Most restrictive except value of health and 1% interest rate	$753	-$80	$673
Least restrictive, except benefit decline—50–100K	$3065	$680	$3744
Least restrictive	$3381	$767	$4147

Notes:
a. In many rows, the number for society does not exactly equal to the sum of the number for beneficiary and taxpayers due to rounding

Panel B presents four combinations of extreme and near-extreme assumptions. The first row presents the results using the most restrictive assumptions: a mere 10% of the CBO values for life and health, 5% discount rate, minimum impacts, steepest benefit decline with family income, 50% deadweight loss, and an 0.19 elasticity of health expenditures with respect to health. Even in this circumstance,

the benefits are higher than the costs, bringing $21 billion benefits to the society as a whole. The second near-extreme result is also illuminating: if all the most restrictive assumptions are combined except for the low value of life and the 5% discount rate—and we use instead the CBO value and a 1% interest rate—then the social benefits are actually quite large, at over 7 times the fiscal costs. In view of the fact that there is no apparent reason to use such a low value of life and health, and given that the real rate of interest is now below 1%, these results suggest that in the current economic context, even the most restrictive assumptions suggest a child allowance is a very good investment.

The 3rd and 4th rows present results for the least restrictive assumptions. When combining less-restrictive assumptions—maximum impacts, less steep decline in returns as family income increases, a 1.5 elasticity of health expenditures with respect to health, and a 1% discount rate—benefits are $4147 billion, or 41 times costs. Even taxpayers enjoy long-term savings of $767 billion. The near-extreme example, which tightens the assumption about which families benefit from the allowance, results in benefits 37 times costs and taxpayers enjoy long-term savings of $680 billion.

In short, Table B1 demonstrates that though there is a fair range of uncertainty about precisely how good an investment the AFA is, the most plausible estimates range from the AFA being a very good investment to being an extraordinarily good investment in our Nation's future.

Appendix C: Full Citations

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