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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

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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.

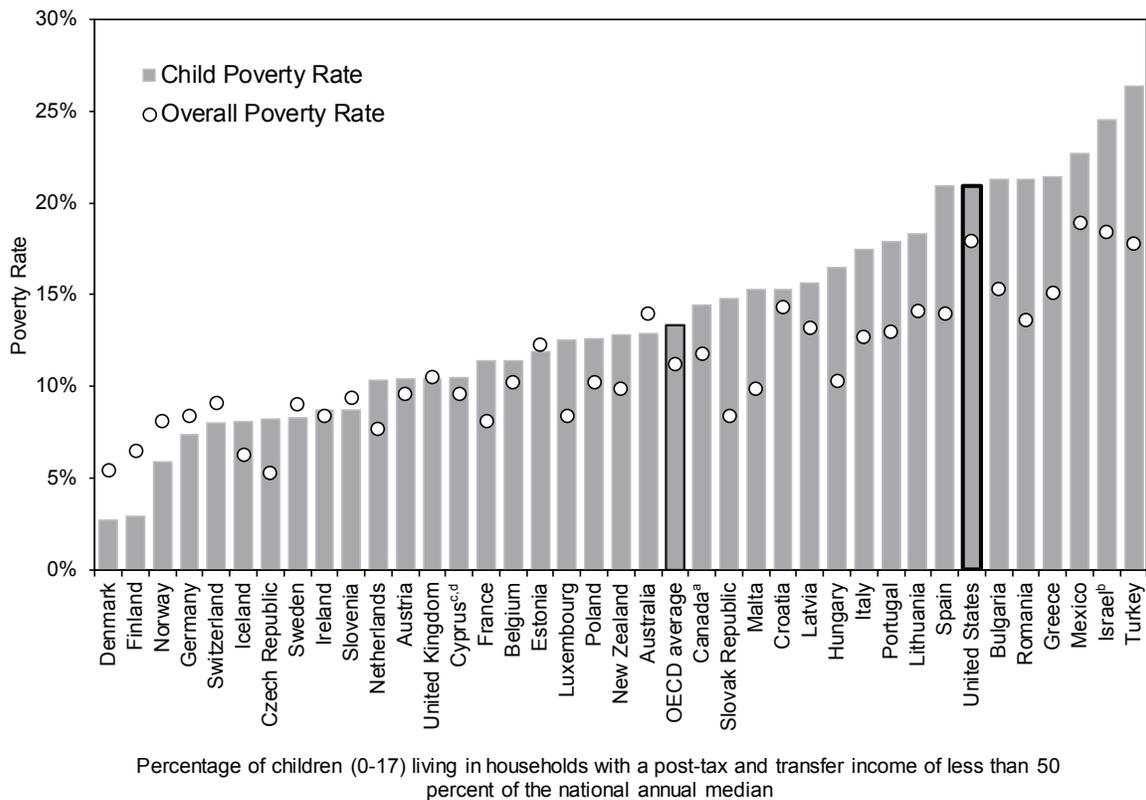


Figure 1. OECD country poverty rates, 2012.

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

Notes:

^aData for Canada refer to 2011.

^bThe 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.

^cTurkey: 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.

^dEuropean 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.

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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.

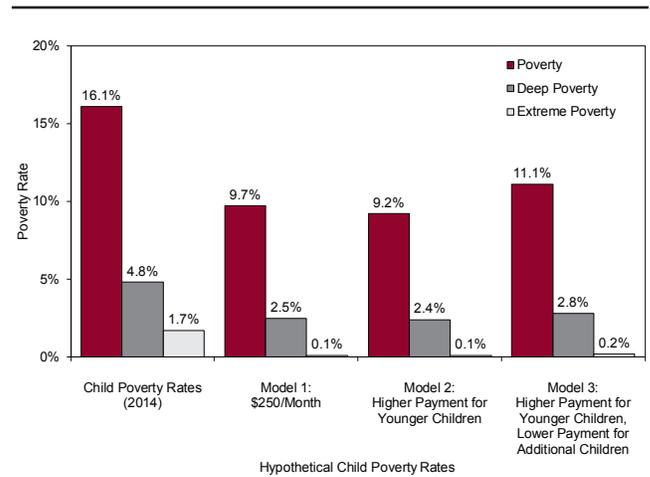


Figure 2. Effects of a Universal Child Allowance on Child Poverty Rates, 2014.

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. ■

⁶T. 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.

²See, 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.

³G. 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.

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

⁵For 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.

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

Cash for kids

Marianne P. Bitler, Annie L. Hines, and Marianne Page

Marianne P. Bitler is Professor of Economics, Annie L. Hines is a doctoral student, and Marianne Page is Professor of Economics, at University of California, Davis.

Children who grow up in poverty are much more likely than their more-advantaged peers to be poor as adults.¹ Poverty in childhood is also correlated with physical and mental health problems, lower test scores, and diminished social and emotional well-being, all of which strongly predict income in later life.² In addition, there is evidence that the chances of poor children overcoming disadvantage in adulthood are shrinking over time.³ Recent evidence has shown that programs such as the Earned Income Tax Credit (EITC) that provide cash to poor families can produce positive effects for children in both childhood and later life. However, some poor families with children do not receive the EITC or other income supports available through the tax system because their parents do not work, or work but do not file taxes. We propose supplementing or replacing the current complex and hard to access system of income supports with an annual universal child benefit of \$2,000 per child. This reform would be simpler and more equitable than the current system, and could be implemented without any additional funding by redistributing current spending.

Evidence that cash and near-cash assistance improve children's outcomes

While there is clear evidence that childhood poverty is associated with poor outcomes in later life, until fairly recently there has been little evidence that poverty itself, rather than other family characteristics, is a causal factor in these outcomes. Research over the past decade has led to a stronger consensus that money does matter, and that increasing the income of poor families can indeed improve children's outcomes.

One set of studies looked at the effects of sudden income decreases as a result of firm closures and mass layoffs. Job loss of this type is unlikely to be related to parental characteristics that affect children's outcomes, so differences between similar families that did and did not experience such an income loss are likely due to the income change rather than other factors. These studies have found that children in affected families have worse health at birth and in early childhood, and lower academic achievement. For example, newborns in families that experienced this precipitous income drop had birth weights that were about 4.5 percent lower than comparable families that did not experience a job

displacement.⁴ Children in these families were also about 15 percent more likely to be held back a grade, and were less likely to enroll in postsecondary education.⁵

Another set of studies looks at the effects of an income increase as a result of EITC expansions in the 1990s. Since these expansions occurred at different times in different states, it is possible to compare children from similar families who received different EITC benefits because of when and where they were living. These studies found that increased income from the EITC was associated with improved health and higher test scores. For example, a \$1,000 increase in EITC income was found to reduce the probability of low birth weight by 2 to 3 percent, and to raise math and reading test scores by 6 percent of a standard deviation.⁶

Finally, there is a group of studies that make use of geographic variation in the timing of the initial implementation of the Food Stamp Program (now known as the Supplemental Nutrition Assistance Program, or SNAP) in the 1960s and 1970s. Again, this variation makes it possible to compare families that are similar except in their access to this "near-cash" assistance. These studies found that exposure to the Food Stamp Program resulted in better health in early and later life. One study looking at long-term outcomes also found that girls whose families received these benefits when they were age 5 had higher rates of self-sufficiency as adults.⁷ A study using more recent variation in the SNAP program as a result of changes to the eligibility rules for legal immigrant adults found that increased access to the program when children were age 5 and under led to better reported health in the following decade.⁸

Collectively, these studies make a strong case that cash and near-cash assistance improves outcomes for children both in childhood and in adulthood.

The current U.S. safety net for poor children

While it is encouraging to know that outcomes for poor children can be improved by additional income, the fact remains that there are many poor families with children who do not receive the supports that are available under the current safety net system. Figure 1 shows household participation in three major safety net programs, Temporary Assistance for Needy Families (TANF), the EITC, and SNAP, by the ratio of private income to poverty thresholds. Only families at the very bottom of this distribution (the left side of the figure) are eligible to receive TANF cash benefits, and only very few of these families get this assistance. For example, fewer than 15 percent of households with income at 50 percent of the poverty line participate in TANF. SNAP participation rates

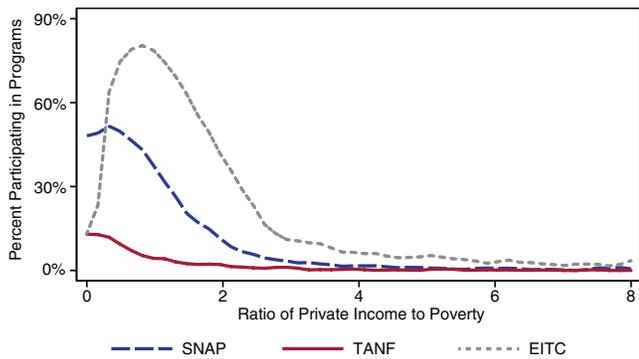


Figure 1. Household-level program participation by ratio of private income to poverty, 2009.

Source: M. Bitler and H. Hoynes, “The More Things Change, the More They Stay the Same? The Safety Net and Poverty in the Great Recession,” *Journal of Labor Economics* 34, No. S1 (2016): S403–S444.

Notes: Estimates are based on the 2010 March Current Population Survey, using a sample of non-elderly headed households. Private income includes all earnings and unearned private income but excludes all government transfers and net taxes. Participation estimates are based on local linear regressions where an indicator for household participation is regressed on the ratio of private income to poverty. The figure shows participation for the 2010 survey year, with income reported for 2009.

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are higher and extend further into the income-to-poverty distribution, but still do not exceed 60 percent among even the poorest households. Finally, the EITC has relatively high participation rates, and reaches furthest into the income-to-poverty distribution, with many households at or above 200 percent of the poverty line receiving this credit. However, since this program is tied to work, it is largely not accessed by those at the very bottom of the income distribution.

There are several reasons why these cash and near-cash assistance programs, while demonstrably helpful to children in families that receive them, miss a substantial number of poor children, particularly those from families in deep poverty. Prior to the welfare reform act of 1996, cash assistance from the Aid to Families with Dependent Children (AFDC) program was available to many poor families. However, TANF, the program that replaced AFDC, currently provides cash assistance to very few families. SNAP, which provides an average monthly benefit of about \$125 per person is the main source of near-cash assistance to poor families without a disabled parent who do not receive the EITC. However, again, some eligible families do not receive SNAP, perhaps because of the stigma of participating in a means-tested program, the bureaucratic hassle of applying for the program, or lack of information about eligibility.⁹ Finally, because the EITC is tied to employment, parents who are unable or unwilling to work will not receive this benefit. The EITC also requires that parents file a tax return; prior research has found that over 15 percent of those who are eligible for the EITC, and two-thirds of those who are eligible but do not participate, do not file taxes.¹⁰ This

relatively low level of EITC take-up could be due to lack of information about the program, or to an unwillingness to tackle the complicated and confusing task of filing taxes.¹¹

A simpler and more equitable plan

Our proposal is to provide all children under the age of 18 with a lump-sum benefit of \$2,000 per child, per year. Our paper focuses on citizen children for ease of administration. A lump sum transfer could be accomplished while maintaining revenue-neutrality by repurposing child-related income supports currently provided through the tax system. Other existing safety net programs such as SNAP would not be changed. This benefit would not be taxable, and would not be counted as income for the purpose of determining eligibility for other means-tested benefits. Because it would be universally available, it would carry no stigma. The benefit would be distributed monthly to provide income stability, and would not require a tax return to be filed. The program would be much simpler than the current complicated system of tax credits and deductions, both from the perspective of administrators and of the families receiving the benefit.

This program could be funded without increasing government expenditures by repurposing funding currently used for the Child Tax Credit (which is non-refundable and thus is only available to those who owe taxes); the Additional Child Tax Credit (which is partially refundable); the child dependent exemption (which is available only to those who file taxes); and the child-related parts of the EITC (leaving in place the adult-related parts of the EITC).¹²

The replacement of these various credits and exemptions with a single lump-sum per-child benefit would have the effect of redistributing payments as illustrated in Figure 2. Repurposing funds from the EITC, the Child Tax Credit, and child exemptions would increase support to children in families at the lowest end of the income distribution, while reducing support for many families who are between 100 and 200 percent of the poverty line. One important issue to keep in mind when considering who will lose and who will gain under this proposal is that there is a considerable amount of “churning” in the use of the EITC as low-income families’ incomes rise and fall from one year to the next. Thus, families who would experience an income loss because of a reduction in their EITC amount would likely only experience that loss in some years, and could experience a gain in other years.

Recent evidence suggests that providing poor families with an income supplement of as little as \$1,000 per year can provide tangible benefits to poor children. While the current safety net does provide such support to the families of some poor children, others miss out. In particular, support for children of poor, non-working parents is extremely limited. The complexity of the current system of tax credits and exemptions means that even some poor families with working parents do not receive all the support for which

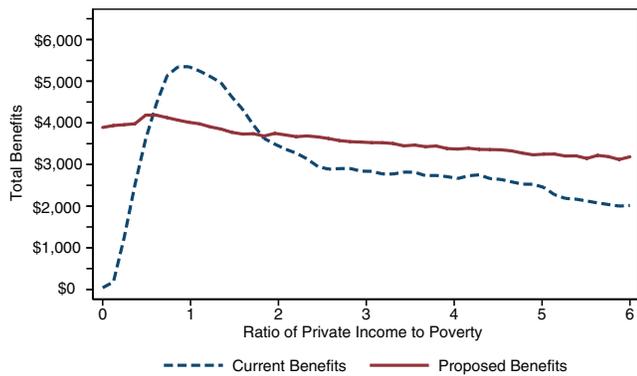


Figure 2: Distribution of proposed universal child benefit by private income to poverty ratio.

Source: Authors' compilation based on 2015 Current Population Survey Annual Social and Economic Supplement data (U.S. Department of Commerce, Bureau of the Census, and U.S. Department of Labor, Bureau of Labor Statistics, 2015).

Notes: Figure shows the distribution of the value of combined child exemptions (multiplied by the marginal tax rate), child-related parts of the EITC, and Child Tax Credit and Additional Child Tax Credit by the ratio of private income to the poverty level, using data from the 2015 Current Population Survey year, with income reported for 2014. All families with children are included, including those with non-citizen children.

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they are eligible. We propose that the current complex patchwork of supports provided through the tax system be supplemented or replaced by a simpler and more equitable universal \$2,000 annual benefit for each child. This proposal has the additional advantage of separating the sometimes conflicting goals of encouraging work and supporting poor children. ■

¹R. L. Wagmiller and R. M. Adelman, "Childhood and Intergenerational Poverty: The Long-Term Consequences of Growing Up Poor," Columbia University Academic Commons, National Center for Children in Poverty, 2009.

²See, for example, K. A. Moore, Z. Redd, M. Burkhauser, K. Mbwana, and A. Collins, "Children in Poverty: Trends, Consequences, and Policy Options," Child Trends Research Brief No. 2009-11, April 2009; and G. W. Evans and R. C. Cassells, "Childhood Poverty, Cumulative Risk Exposure, and Mental Health in Emerging Adults," *Clinical Psychological Science* 2, No. 3 (2014): 287–296.

³S. F. Reardon, "The Widening Academic Achievement Gap between the Rich and the Poor: New Evidence and Possible Explanations," in *Whither Opportunity? Rising Inequality, Schools, and Children's Life Chances*, eds. G. J. Duncan and R. J. Murnane (New York, NY: Russell Sage Foundation, 2011).

⁴J. M. Lindo, "Are Children Really Inferior Goods? Evidence from Displacement-Driven Income Shocks," *Journal of Human Resources* 45, No. 2 (2010): 301–327.

⁵A. H. Stevens and J. Schaller, "Short-Run Effects of Parental Job Loss on Children's Academic Achievement," *Economics of Education Review* 30, No. 2 (2011): 289–299; N. G. Hilger, "Parental Job Loss and Children's Long-Term Outcomes: Evidence from 7 Million Fathers' Layoffs," *American Economic Journal: Applied Economics* 8, No. 3 (2016): 247–283.

⁶H. W. Hoynes, D. L. Miller, and D. Simon, "Income, the Earned Income Tax Credit, and Infant Health," *American Economic Journal: Economic Policy* 7, No. 1 (2015): 172–211; G. B. Dahl and L. Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," *The American Economic Review* 102, No. 5 (2012): 1927–1956.

⁷H. W. Hoynes, D. W. Schanzenbach, and D. Almond, "Long-Run Impacts of Childhood Access to the Safety Net," *The American Economic Review* 106, No. 4 (2016): 903–934.

⁸C. N. East, "The Effect of Food Stamps on Children's Health: Evidence from Immigrants' Changing Eligibility," unpublished paper, University of Colorado Denver, 2016. <http://www.sole-jole.org/17153.pdf>

⁹M. Bertrand, S. Mullainathan, and E. Shafrir, "A Behavioral Economics View of Poverty," *The American Economic Review Papers and Proceedings* 94, No. 2 (2004): 419–423; C. J. Heinrich, "The Bite of Administrative Burden: A Theoretical and Empirical Investigation," *Journal of Public Administration Research and Theory* 26, No. 3 (2016): 403–420.

¹⁰D. Plueger, "Earned Income Tax Credit Participation Rate for Tax Year 2005." *IRS Research Bulletin* (2009): 151–195.

¹¹S. Bhargava and D. Manoli, "Psychological Frictions and Incomplete Take-up of Social Benefits: Evidence from an IRS Field Experiment," *The American Economic Review* 105, No. 11 (2015): 3489–3529; N. E. Feldman, P. Katuscak, and L. Kowano, "Taxpayer Confusion: Evidence from the Child Tax Credit," *The American Economic Review* 106, No. 3 (2016): 807–835.

¹²Using funds from the Child Tax Credit, Additional Child Tax Credit, and child dependent exemption to fund a universal child benefit is similar to the plan proposed by Shafer et al. in this issue. However, unlike their plan, ours would also use funds from the child-related parts of the EITC, which would make it possible to finance the child benefit without allocating additional funding.

As the National Poverty Research Center supported by the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, IRP offers competitive research funding, training, and mentoring opportunities. Open competitions are briefly described and linked below (or see <https://www.irp.wisc.edu>).

Extramural Small Grants on Research to Inform Child Support Policies and Programs

About half of all American children will spend at least part of their childhood living in a single-parent, most frequently single-mother, family. Single-parent families with minor children are particularly economically vulnerable. The child support enforcement program plays a critical role in facilitating private income transfers from noncustodial parents to their nonresident children.

To generate potential policy and/or programmatic implications for the child support enforcement program at the federal, state, or local level, the 2018 to 2019 extramural research funding program supports related research.

IRP anticipates funding four to eight projects, with total funding (including direct and indirect costs) ranging from \$10,000 to \$25,000 each. The award period is from March 1, 2018, to February 28, 2019. Applications are due January 5, 2018. <https://www.irp.wisc.edu/initiatives/emergingscholars.htm>

Summer Dissertation Proposal Workshop

The Summer Dissertation Proposal Workshop offers intensive training designed to address the achievement gap in advanced degrees in the social sciences by providing competitively selected students from underrepresented populations with the skills, knowledge, and resources needed to prepare a dissertation proposal.

Pre-dissertation proposal doctoral students from underrepresented racial or ethnic populations (Black, Hispanic, Native American) studying at U.S. universities are invited to apply for the second annual Summer Dissertation Proposal Workshop, to be held at Howard University, Washington, D.C., May 20–26, 2018. Applications are due January 31, 2018. <https://www.irp.wisc.edu/newsevents/workshops/sdpw.htm>

Teaching Poverty 101 Workshop

Teaching Poverty 101 is a week-long workshop that offers strategies and resources for instructors developing college-level courses and lessons on poverty and inequality. The workshop brings together college faculty and instructors from across the United States to the University of Wisconsin–Madison campus for several days of intensive, collaborative work during which they will share their own teaching expertise and develop a model course syllabus.

College faculty and instructors in any postsecondary institution—university, college, or community college—are invited to apply for the 2018 Teaching Poverty 101 Workshop, to be held at UW–Madison June 12–15, 2018. Applications are due February 15, 2018. <https://www.irp.wisc.edu/newsevents/workshops/teachingpoverty101.htm>

Scholar-in-Residence Program for Underrepresented Groups

The Scholar-in-Residence Program for Underrepresented Groups aims to enhance the research interests and resources available to poverty scholars from underrepresented populations, foster interaction among a diverse set of scholars, and broaden the corps of poverty researchers.

U.S.-based scholars from underrepresented racial and ethnic populations are invited to apply for a one-week visit at the [U.S. Collaborative of Poverty Centers](#) institution of their choice during the 2018–2019 academic year. Ph.D.-holding scholars at all career levels are eligible. Applications are due February 28, 2018. <https://www.irp.wisc.edu/initiatives/vscholars.htm>

Minimum benefit plan for the elderly

Pamela Herd, Melissa Favreault, Madonna Harrington Meyer, and Timothy Smeeding

Pamela Herd is Professor of Public Affairs and Sociology at the University of Wisconsin–Madison and an IRP Affiliate; Melissa Favreault is a Senior Fellow at the Urban Institute; Madonna Harrington Meyer is Professor of Sociology and Senior Research Associate at Syracuse University; Timothy Smeeding is the Lee Rainwater Distinguished Professor of Public Affairs and Economics at the University of Wisconsin–Madison and an IRP Affiliate.

While the Social Security program has greatly reduced poverty rates among those over age 65, there are still a substantial number of older Americans living in poverty. Those who are single, female, or African American are more likely to be poor in old age. We propose a targeted benefit to provide a minimally adequate income to the elderly, to be administered through the Social Security system. This plan would substantially reduce poverty among older adults at a relatively modest cost to the federal government.

Poverty among older adults

Social Security has reduced elderly cash income poverty rates from just under 40 percent in the late 1950s to around 9 percent in 2016.¹ Still, that leaves nearly one in ten older adults living in poverty. In addition, particular subgroups face substantially higher poverty rates. For example, single older adults are three times as likely to be poor as married older adults.² Older women are almost twice as likely to be poor as older men, and black older adults have triple the poverty rate of white older adults. Those who fall in all three disadvantaged groups, single black older women, have a poverty rate of almost 30 percent.

Current Social Security program

There are currently two ways that older adults can qualify for Social Security benefits: as retired workers, or as spouses of retired workers. To qualify for retired worker benefits, or Old Age Social Insurance, individuals must have achieved a minimum level of quarterly earnings over a total of 40 quarters, or 10 years. To be eligible for spousal benefits, an individual must be of retirement age (which is currently undergoing a gradual increase from 65 to 67) and have been married for at least 10 years to a qualifying worker. The amount of the spousal benefit is half of their current or former partner's retired worker benefit. If an individual meets the criteria for spousal benefits but their partner is deceased, their survivor benefit is the entire amount of their

late partner's retired worker benefit. While an individual who is eligible for a spousal or survivor benefit may also be eligible for a retired worker benefit based on their own earnings, they will only receive one benefit, whichever is larger.

The great majority of people receiving spousal or survivor benefits are women. While a larger number of women qualify for retired worker benefits in their own right now than in the past, many of these women instead receive spousal or widow benefits because their earnings are much lower than their husbands' earnings; thus, the benefit payment based on their spouse's earnings is higher than that based on their own. In fact, the proportion of women receiving benefits based on their husband's earnings is the same as it was over 50 years ago, about two-thirds.³

Women's earnings are lower than men's because they are less likely to be employed, less likely to work full time, and earn less when they are employed. While the spousal and survivor benefits do offset lower lifetime earnings for many women, they do so only for those who marry, and who stay married for at least 10 years. Black women and poor women have been less likely to benefit from spousal or survivor benefits, and changes in marriage trends are exacerbating these differences. Among women born in the 1960s, around 80 percent of white and Hispanic women will qualify for spousal or widow benefits when they reach retirement age, compared to only 50 percent of black women.

Retired worker benefits are calculated as a proportion of past earnings, and that proportion declines as earnings rise, helping to narrow the gap between lower and higher earnings. However, the existence of spousal and survivor benefits dilutes the extent to which lower-income workers benefit from proportionally larger payments. For example, a widow whose husband earned an average of \$60,000 per year would receive a \$1,200 monthly survivor benefit. In contrast, a widow who earned an average of \$30,000 per year, and whose husband also earned an average of \$30,000, (making their average household annual earnings \$60,000, the same as the first couple), would receive only an \$800 benefit. In this case, her own retired worker benefit and her widow benefit would each be \$800, but she would only receive one of the two benefits. Married couples where both partners earn the same amount are most affected by the difference in how the two benefits are calculated. Because black married women are more likely to work than are white married women, and because black married couples are more likely than white married couples to have similar earnings between spouses, black families are disproportionately affected by this difference.⁴

A (new) Minimum Benefit Plan

We believe that the most effective way to reduce poverty among older Americans is to provide a targeted minimum benefit through the Social Security system. While the Supplemental Security Income Program (SSI, which provides monthly stipends to low-income individuals who are either older than 64 or disabled), does currently offer a means-tested minimum benefit, there are two primary reasons why this program does not offer sufficient income security to the elderly. First, the payments are very low, with about 80 percent of all SSI recipients remaining well below the poverty line.⁵ Second, only about half of those eligible for SSI receive it, partly because of a cumbersome administrative structure.⁶

We argue for a new Minimum Benefit Plan to be administered within the Social Security system. This benefit would be large enough to bring recipients up to 100 percent of the poverty line, and would be expected to have a high take-up rate. To receive a Minimum Benefit Plan payment, individuals would need to meet all existing requirements for Social Security retired worker benefits, including having at least 10 years of earnings, with a residency requirement. Individuals who had resided in the United States for at least 20 years after the age of 18 would receive the full amount needed to raise their income to the poverty line, while those who had lived here for a total of between 10 and 20 years would have their payment pro-rated. Eligibility would be based on poverty lines adjusted for marital status, so single individuals would be eligible if their income fell below the poverty line for a one-person household, while married individuals would be eligible if their joint income fell below the poverty line for a two-person household. Minimum Benefit Plan payments would be combined with regular Social Security payments in a single monthly payment. Eligibility would be determined through the tax system, similar to the way the Earned Income Tax Credit (EITC) is currently administered, so individuals would need to file an income tax form in order to qualify. We would expect take-up for the Minimum Benefit Plan to be similar to the 80 percent take-up rate for the EITC. Importantly, like the EITC, Minimum Benefit Plan payments would not count as income for eligibility determinations in programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP). If this were not the case, a recipient's Minimum Benefit Plan amount could be more than offset by income losses due to loss of other program eligibility.

We estimate that implementation of this Minimum Benefit Plan would raise total Social Security spending by approximately \$9 billion dollars, or 1 percent of current Social Security expenditures. This cost estimate reflects some offset in lower spending on the SSI program (which would remain in place), since some individuals would be able to leave that program for the more generous Minimum Benefit Plan.

How would the Minimum Benefit Plan affect poverty among older adults?

The Minimum Benefit Plan is modeled on two successful income support programs: the EITC in the United States, and the Canadian Guaranteed Income Supplement. In order to estimate the poverty-reducing effects of the Minimum Benefit Plan for older Americans, we used data from the Current Population Survey. We found that the overall poverty rate for those aged 65 and older would be cut approximately in half, from 8.6 percent to 4.4 percent. Some poor elderly individuals would not be eligible for the Minimum Benefit Plan, including those who did not have 10 years of earnings, or had not resided in the United States for long enough. Among those who were eligible for the benefit, the proportion of poor older adults in poverty would drop by almost 90 percent, while the proportion in deep poverty (below 50 percent of the poverty line) would go to zero.

Approximately 7 percent of current Social Security recipients would be expected to receive a payment under the Minimum Benefit Plan, with an average payment of \$3,600 per year, an increase of about 40 percent in annual income. The subgroups of older adults with higher poverty rates (such as those who are single, female, or black) would be more likely than others to receive a payment, and would receive a larger payment on average. For example, around 15 percent of black older adults would be expected to receive a payment with an average benefit of \$3,801; only about 5 percent of white elderly individuals would receive a payment, averaging \$3,296.

The Minimum Benefit Plan would build on the Social Security system, a popular and effective social policy program, to lower poverty and increase economic security among older adults. Although older adults as a whole have a relatively low poverty rate compared to other age groups, some subgroups such as black single women have very high poverty rates. This benefit would be tightly targeted to ensure that only those who are below the poverty line would benefit. ■

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³Social Security Administration, "Social Security Administrative Statistical Supplement," 2015, Tables 5.A14 and 5.A15.

⁴C. Goldin, "Female Labor Force Participation: The Origin of Black and White Differences, 1870 and 1880," *The Journal of Economic History* 37, No. 1 (1977): 87–108.

⁵Center on Budget and Policy Priorities, "Introduction to the Supplemental Security Income (SSI) Program," 2014. <http://www.cbpp.org/sites/default/files/atoms/files/1-10-11socsec.pdf>

⁶U.S. House Ways and Means Committee, *Green Book*, 2004.

Single-parent-family policy

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The United States has a variety of programs and policies that address the needs of low-income families with children. However, current policy specifically targeted to single-parent families primarily operates through the child support system. While this system generally works well for middle- and upper-income families when married parents divorce, it does not adequately address the needs of lower-income families, particularly when the parents were not married. Nonpayment, partial payment, and irregular payment of child support are common, leaving far too many children with inadequate financial resources; further, a primary focus on enforcing financial support from noncustodial parents may in fact discourage parental responsibility. In order to address these issues, we propose a new approach. At the core of our proposal are changes that would provide a guaranteed minimum monthly amount for each child. While noncustodial parents would be held accountable for adequate financial support of all their children, they would not be required to pay beyond their current means. We also suggest that policies enforcing noncustodial parents' financial responsibilities to their children will be most effective in a context that also supports parental responsibility more broadly. These changes would complement other proposed reforms for low-income families described in this issue, such as a universal child allowance.

Current child support system

Child support orders can be established as part of a divorce process or when an unmarried parent seeks child support or public benefits. Each state has guidelines for setting child support orders, nearly all of which are based on the principle that noncustodial parents should provide the same level of support that they would have provided had the parents lived together.¹ The employers of noncustodial parents with a child support order are required to withhold the amount of child support due, which is collected and distributed by a central processing agency. The state child support agency can also help locate the other parent, establish a child support order, monitor whether the order is being met, and take enforcement actions if it is not. Enforcement measures may include revoking a driver's license, intercepting a tax refund, or even civil or criminal charges for nonpayment. These services are available to any custodial parent who requests them, but custodial parents receiving public benefits

are required to cooperate with the agency as it pursues these activities.

When parents divorce, there is a legal process that generally includes not only detailing financial matters such as the child support order, but also specifying who will make important decisions on behalf of children (legal custody) and with whom children will live (physical custody). There may also be a detailed parenting plan that specifies when each parent has responsibility and how transitions between parents are to occur. Note that, unlike child support orders, no public agency either monitors or enforces such parenting plans.

The same child support policy that applies to divorcing parents applies to unmarried parents, though they must go through the additional step of having paternity voluntarily acknowledged or formally determined. Unlike divorcing parents, there is no standardized mechanism for unmarried parents to establish parenting time agreements. If paternity is formally established in a court proceeding, or if a child support order is set in a court proceeding (which is not required in all states), then there may be an opportunity to set the rights and responsibilities of each parent, but this is not done systematically.

Lower-income unmarried couples are more likely than those with higher incomes to be served by child support agencies, both because those having difficulty with child support issues (who are more likely to have low incomes) apply for services, and because custodial parents receiving some public benefits are required to cooperate with child support enforcement efforts. Low-income families are also much less likely to have the resources to arrange legal hearings related to parenting time.

How well does the current system support children and encourage parental responsibility?

We believe that the primary policy goals of the child support system should be twofold: first, to increase the financial resources that are available to children who live with a single parent; and, second, to hold parents responsible for the financial support of their children. As currently structured, the child support system largely meets the goals of supporting children and encouraging parental responsibility for divorced parents with moderate to high earnings. However, it does not adequately meet these goals for lower-income families, especially when the parents were not married. Too few children receive support, receive an adequate amount of money, or receive payments regularly. Only about half of all custodial parents have a child support order, with only 42 percent of never-married parents having an order.² Even if a child support order is in place, not all obligations are paid. In

2013, fewer than half of all custodial parents due child support received the total amount owed, and one-quarter received nothing.³ There is also evidence that even when child support is paid, it is not paid every time it is due; this irregularity can cause uncertainty and stress among custodial parents, and make it more difficult for them to plan for the future.⁴

Low-income custodial parents are disproportionately less likely to receive support, and they receive less when support is paid.⁵ Low-income custodial parents may also be even less likely than average to receive child support regularly. Some of the reasons that child support provides so little support to low-income custodial parents relate to noncustodial parents being unable or unwilling to pay substantial amounts. First, the noncustodial parents of many low-income children are unemployed or underemployed, and thus do not have sufficient financial resources to provide adequate or consistent support. While lack of financial resources is clearly a problem for all low-income families, not just those in the child support system, it is evident that a policy that relies on the support of noncustodial parents will be unsuccessful if those parents do not have the income needed to provide that support. Second, incarceration leaves many noncustodial parents unable to pay support while incarcerated, and with reduced earnings potential following release.⁶ Third, lower-income noncustodial parents are more likely than those with higher income to have had children with more than one partner, increasing the demand on already low resources.⁷

Beyond noncustodial parents not paying enough, social policy itself is one of the causes of no, low, or irregular child support receipt. Noncustodial parents may be incarcerated for falling behind in their payments. Custodial parents who receive Temporary Assistance for Needy Families (TANF) must renounce their rights to child support while they are receiving assistance, and many states retain all child support paid and use it to offset the cost of assistance. Child support also is counted as income when determining eligibility and benefit levels for some means-tested assistance programs such as the Supplemental Nutrition Assistance Program and housing vouchers. So, even when child support is paid, other benefits may be reduced, resulting in little or no increase to the financial resources available to children.

Further, child support policy currently does little to encourage parental responsibility, especially among never-married parents, some of whom did not have a stable romantic relationship prior to the child's birth. Since there is no formal structure within the child support system for unmarried parents to determine custody or visitation, let alone to develop co-parenting skills, many noncustodial parents feel that the system treats them solely as a financial resource, and does not help them to develop a relationship with their children.⁸ This may make noncustodial parents less willing to pay child support.

Current child support policy was designed for families with one custodial parent and one noncustodial parent who have

had children only with each other. The system was structured to enforce ideas about paternal responsibility based on views that were once broadly held, such as that parents should marry, and that fathers, more than mothers, should be the family breadwinners. These views are now belied by the realities of current life; over 40 percent of all children are born to unmarried parents, and while mothers still work and earn less than fathers, the gap has narrowed, and even reversed for some subgroups.⁹ In addition to changes in family composition, there have also been substantial changes in the structure of the U.S. safety net, which leave children in low-income single-parent families with insufficient resources. If the child support program is to meet the needs of low-income single-parent families, substantial policy changes are required.

A new approach to child support

In order to ensure that the child support system meets the goals of financially supporting children and encouraging parental responsibility for this support, we propose: (1) a minimum monthly support amount per child; (2) a maximum child support obligation for noncustodial parents; and (3) a guarantee of public funds to make up the difference between the minimum support amount and the amount that the noncustodial parent can reasonably pay. Our proposal aims to rekindle a discussion initiated more than 30 years ago by Irv Garfinkel and colleagues.¹⁰

Specifically, we propose a guaranteed minimum child support amount of \$150 per month be provided to each child. This guaranteed payment responds to the problem that many children currently receive nothing or receive irregular support. The child support order standard would be 12.5 percent of the noncustodial parent's income for each child, with current obligations capped at 33 percent of the noncustodial parent's income. The noncustodial parent would accrue debt to the government for failure to pay current support due. In addition, for noncustodial parents owing current support for more than two children (who would thus exceed the 33 percent income cap), child support would continue to be due (with minimal interest) after the children reach age 18 and current support ends, until the entire child support obligation had been paid. Moving to a per-child order emphasizes a child's rights and provides for simplicity instead of the current complexities that arise when parents have had children with multiple partners. Taken together, these changes would increase the financial resources available to vulnerable children and avoid current payments becoming an unmanageable burden for noncustodial parents of multiple children, while still holding them responsible for providing for all of their children. Other aspects of our proposal would also increase the effectiveness of the child support system. Child support income up to the minimum guarantee would not be counted in determining eligibility and benefit levels for means-tested programs, so that the \$150 per month per child would represent additional income rather than simply replacing government

transfers. Finally, we propose that the child support system offer an array of broader supports for parents rather than focusing solely on financial transfers. This could improve relationships between parents, and between noncustodial parents and their children, which in turn might lead to additional financial support.

These reforms to the child support system, combined with other reforms supporting low-income families more generally, would greatly expand the resources available to economically vulnerable children and families.■

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Renter's tax credit

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The affordability of housing in the United States is a major issue for those with incomes too low to accommodate rising rents. In 2015, half of all renters had housing costs that exceeded 30 percent of family income, meeting the U.S. Department of Housing and Urban Development's standard for "housing-cost burdened." Further, half of those who were housing-cost burdened were considered severely burdened, with housing costs exceeding 50 percent of family income.¹ Low-income families are disproportionately likely to face housing costs that present such burdens. While there are federal subsidy programs that are intended to defray housing costs, these programs are insufficient and inequitable. We propose a refundable tax credit for renters that would reach a much broader segment of the population than existing programs; reflect geographic variation in housing costs; lift some families out of poverty; and substantially reduce the poverty gap for other families.

Why focus on housing to reduce poverty?

Under the U.S. Census Bureau's Supplemental Poverty Measure, poverty thresholds are based on spending for basic needs including food, clothing, shelter (housing), and utilities; housing costs account for around half of the total poverty threshold. Families that are unable to find affordable housing have less to spend on other necessities, and are more likely to live in substandard housing, be evicted, or be homeless.² The stress of trying to make ends meet can also negatively affect mental health and parenting resources.³

Further, housing costs vary greatly by geographic area. Assistance offered through existing safety net programs such as the Earned Income Tax Credit, the Child Tax Credit, or Supplemental Security Income does not reflect cost-of-living variations across the country. A policy that specifically targets households that are burdened by housing costs could reflect this geographic variation, and offer a promising strategy to reduce poverty.

Existing housing subsidy programs

The two primary housing subsidy programs in the United States are the Low Income Housing Tax Credit (LIHTC) and

the Housing Choice Voucher program. The LIHTC provides funding for states to provide tax credits to developers who build or rehabilitate rental housing and reserve a specific proportion of units for households earning less than 60 percent of the local median income. These credits are available only for new construction or rehabilitation; they cannot be applied to existing housing. Because rents in the housing subsidized by the LIHTC are not targeted to households with incomes below half of the local median, the housing made available through this program is generally not accessible to the poorest households without an additional subsidy.

In contrast, the Housing Choice Voucher program does offer a substantial rental subsidy to low-income households. Families that have a voucher pay 30 percent of their income towards rent; public funds cover the rest. These vouchers are directed at very poor families; by law, local agencies must provide at least 75 percent of available vouchers to families with incomes at or below 30 percent of the area median income, with any remaining vouchers going to families with incomes below 50 percent of the median. The primary drawback of the Housing Choice Voucher program is that there are so few vouchers available. In many cities, waitlists to receive these vouchers are years or even decades long. There are also high administrative barriers for both landlords and tenants to make use of the program; some landlords are unwilling to participate in the program, and even some families that receive a voucher are not able to secure a lease within an allotted time period.⁴ All told, only one in four eligible families receives any assistance from this voucher program.⁵

In addition to being inadequate to fill the need, federal housing subsidies are also inequitable. Homeowners receive more than three times the amount spent on federal low-income housing subsidies, in the form of mortgage interest and property tax deductions. Half of the dollar amount of these homeowner deductions go to families earning more than \$100,000. Renters, who receive none of these deductions, are much more likely to be poor than homeowners; in 2013 through 2015, over one-quarter of renters were poor according to the Supplemental Poverty Measure, compared to one-tenth of homeowners.⁶

Proposed renter's tax credit

In order to address the inequities and inadequacies of current housing policy and assistance, we propose a new refundable renter's income tax credit for households with high rental housing costs relative to their income. This credit would be for renters who were not already receiving a housing subsidy, and who had housing costs equal to more than 40 percent of their total after-tax income (marking a middle ground between the

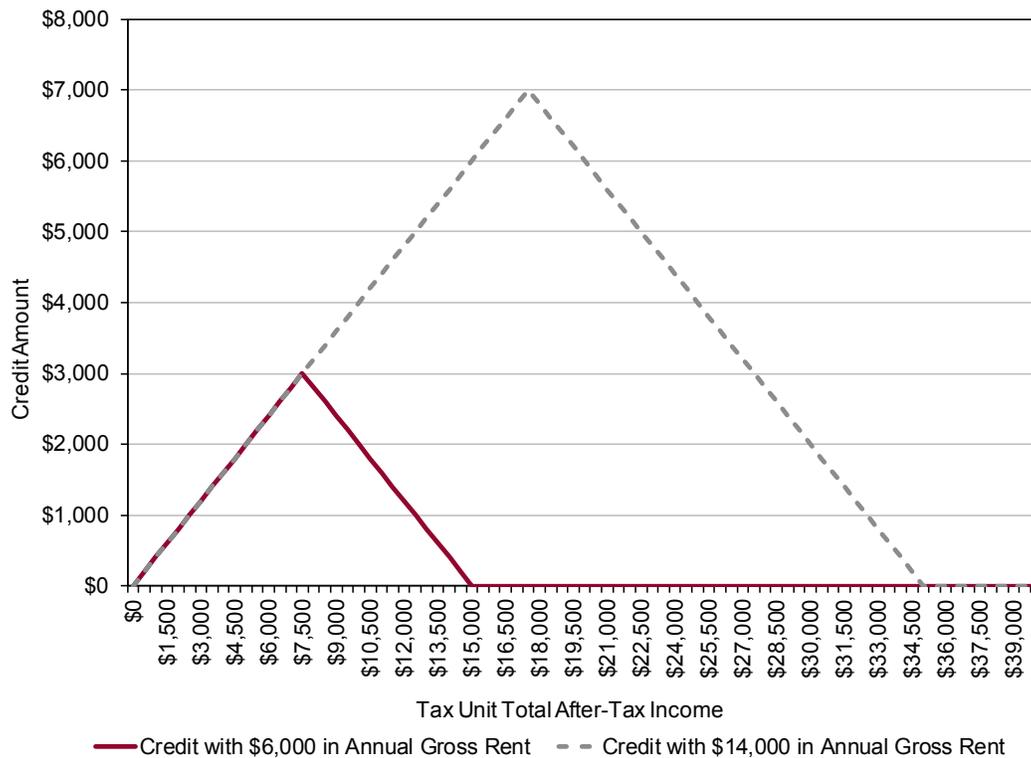


Figure 1. Proposed renter's tax credit schedule in low-rent and high-rent areas.

Source: Authors' compilation.

Notes: Annual gross rent of \$6,000 is equivalent to approximate average Fair Market Rent (FMR) for tax filers in nonmetropolitan Iowa. Annual gross rent of \$14,000 is equivalent to approximate average FMR for tax filers in metropolitan California. Assumes tax filer's annual gross rent does not exceed FMR cap (set to average FMR by state and metropolitan status, adjusted to family size).

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housing-cost burdened and severely housing-cost burdened federal housing affordability standards). The credit would equal the difference between actual rent paid and 40 percent of after-tax total income (including taxable and nontaxable income), up to certain caps. Thus, with the credit, recipients' housing-cost burden would generally be reduced to 40 percent of income. Allowed rent costs would be capped at the expected market rent for the tax filer, assessed using average Fair Market Rents in either metropolitan or nonmetropolitan areas by state, adjusted for household size. The credit amount would increase with housing cost burden up to a cap equal to the credit amount available to renters paying 80 percent of income toward rent. Renters with housing cost burdens of 80 percent of income or more would therefore be eligible for the maximum credit amount, which would gradually phase out to zero for those with housing costs equal to or less than 40 percent of income. Figure 1 shows examples of what this would look like in a nonmetropolitan area with relatively low Fair Market Rent, and in a metropolitan area with relatively high Fair Market Rent.

Relative to existing housing subsidy programs, this renter's tax credit would have a much broader reach, and the largest benefits would go to those facing the largest housing-cost burden. Since most households already file tax returns, the process of applying for this tax credit would be relatively straightforward. Also, because the credit would make use of

existing tax processing infrastructure, we anticipate that the costs of administering this credit would be low.

Simulation of policy effects

We used 2015 Current Population Survey data to simulate the reach and effects of our proposed renter's tax credit. This simulation confirms the broad reach of the proposed credit: over 11.5 million tax filers would be eligible, comprising over 20 million total individuals when all household members are counted. The credit would reach more than twice as many cost-burdened renters as do current housing subsidy programs. The average credit amount would be about \$2,100, with poor households receiving more than non-poor households (approximately \$2,300 compared to \$1,500). More than half of the households receiving the credit would be families with children. Individuals benefiting from the credit would be diverse by race and ethnicity, and about half would be in families where the highest educational attainment was a high school degree or less. Households receiving the credit would be concentrated in Southern states, where income tends to be low, and in Western states, where housing costs tend to be high.

Figure 2 shows the expected effect of the renter's tax credit on the poverty rate, as determined by the Supplemental Poverty Measure. We estimate that the credit would reduce

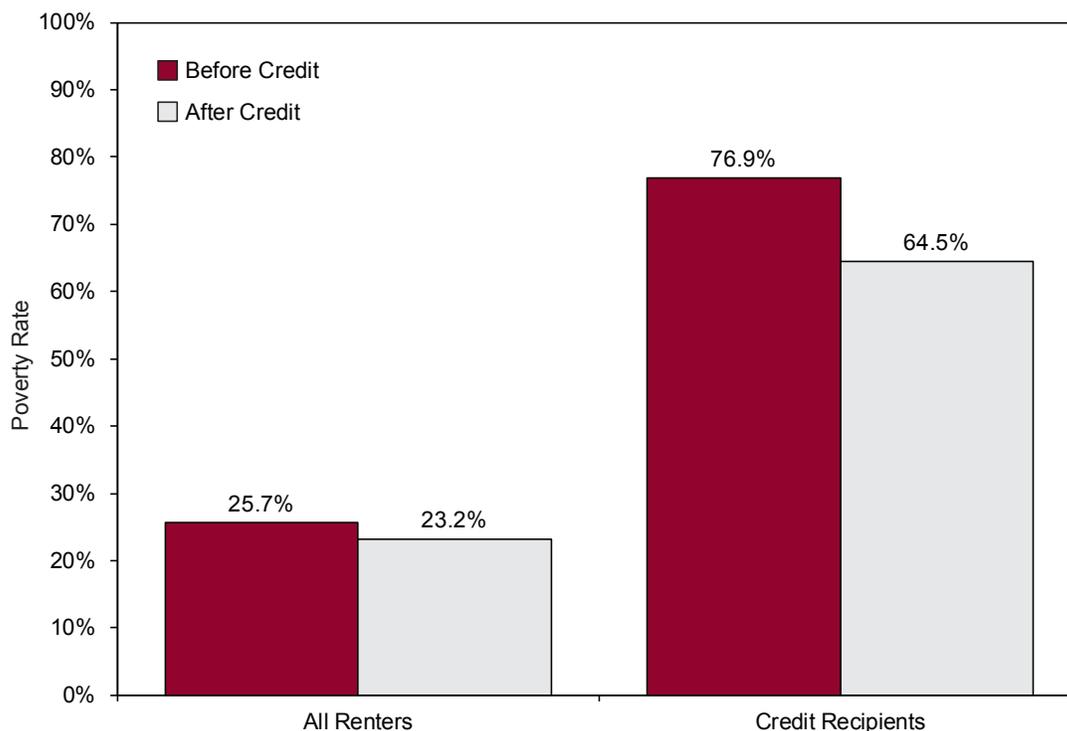


Figure 2. Poverty rate before and after renter's tax credit.

Source: Authors' calculations using 2013–2015 Current Population Survey data.

Notes: Poverty rates determined using Supplemental Poverty Measure.

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poverty by 2.5 percentage points among renters, and by 12.4 percentage points among those receiving the credit. Overall, 2.6 million people would be lifted out of poverty by the credit. An additional 13.4 million would see a substantial decline in the gap between their total resources and the poverty line, reducing the median poverty gap by approximately one-third, from about \$7,700 to \$5,100.

Compared to simply expanding existing housing subsidy programs, a renter's credit would be a more efficient and equitable way of providing the most assistance to families. Because the credit would go directly to the renter, landlords would not need to consent to participate, nor grapple with administrative hassles. Landlords and other tenants would not need to know that a particular family was receiving a credit, which could be less stigmatizing than the existing voucher program.

The total annual cost of the credit as outlined here would be approximately \$24 billion. One possibility for funding such a credit would be to reduce the mortgage interest and property tax deductions available to high-income homeowners. The current public cost of these deductions for homeowners earning more than \$100,000 per year is over \$70 billion annually.⁷ Another option would be to divert some of the profits of landlords and property owners who benefit from rising housing costs, through taxes on rental property income or on capital gains from the sale of real estate. In this case, care would need to be taken to prevent these costs from being passed back to renters in the form of higher rents.

Overall, we believe that a refundable renter's tax credit offers a promising pathway to address the decline of affordable housing and to reduce poverty. Although we propose a specific tax credit plan in this article, the general structure of the credit allows considerable flexibility to make modifications in order to meet specific policy goals such as targeting particular types of households, or lowering total cost.■

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Boosting the poverty-fighting effects of the minimum wage

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In the past five years, there has been a large increase in the number of states, counties, and cities that have established minimum wage laws that exceed the federal minimum wage of \$7.25 per hour. Although many of these minimum wage laws explicitly state an intention to reduce poverty, the effects of minimum wage increases to date on poverty rates appear to be small at best. In order to make the minimum wage a more effective poverty-reduction tool, we recommend raising the federal minimum wage to \$12.00 per hour, and using employer tax credits to offset any disemployment effects of the higher wage. Since this plan would increase tax revenue without increasing administrative costs, we recommend using the additional funds to allow minimum wage workers to continue to benefit from public income supports at higher income levels in order to “make work pay,” and remove barriers to upward mobility.

Minimum wage trends

The first federal minimum wage was established in 1938 as part of the New Deal. The most recent increase to the federal minimum wage was in 2010, when it was raised from \$6.55 to \$7.25 per hour. However, the real value of the minimum wage has been on the decline since 1968, the last time it was increased to match the inflation rate. States, counties, and cities are permitted to set their own minimum wage rates at a level above the federal rate; a growing number are doing so at an increasingly high level compared to the federal minimum. For example, in 2011, 13 states had minimum wages above the federal minimum; on average, these state minimum wages were about 8 percent higher than the federal rate of \$7.25. By 2016, 30 states and the District of Columbia had established minimum wages that ranged from \$7.50 to \$10.50, and averaged about 20 percent higher than the federal minimum. In addition, since 2012 at least 46 cities and counties have passed minimum wage laws that are higher than their state minimum; these range as high as \$15.00 per hour. Overall, we calculate that around 60 percent of the U.S. population now lives in a state or locality with a minimum wage of more than \$7.25.

Effects of the minimum wage on poverty

Research on the poverty-reducing effects of minimum wage laws has produced mixed results, but at best minimum wage increases have been associated with small decreases in poverty.¹ While measurement issues may explain some of these results, we believe that there are three primary reasons that the minimum wage is not associated with larger poverty decreases: (1) imperfect targeting of the minimum wage to the poor or near poor; (2) job loss or reductions in hours as a result of wage increases; and (3) interactions with income support programs that base eligibility and benefit levels on earnings and income.

Minimum wage laws do not target poor and near-poor individuals as effectively as many means-tested benefit programs; nonetheless, our research finds that they do disproportionately benefit disadvantaged workers, including women and persons of color (groups that have higher rates of poverty than the general population). In addition, our analysis of how poverty rates vary with wages indicates that increasing the minimum wage to at least \$12.00 per hour would improve the targeting of this policy to reduce poverty even more.

A second mechanism that could restrict the poverty-reducing effects of the minimum wage is its disemployment effects. There is some evidence that decreases in poverty associated with an increase in the minimum wage could be partially or completely offset by concurrent increases in poverty resulting from reductions in employment and hours.²

The third, and we argue, most important reason why the minimum wage may not significantly decrease poverty has to do with the interaction between earnings and public assistance receipt. Low-income workers and their children can access a variety of in-kind and cash income supports to supplement their earnings. Eligibility and benefit levels for these income support programs are based on earnings and other income, and may phase out as income levels rise above a certain level. This interaction between earnings and income supports is known as an “implicit marginal tax rate.” At low income levels, where work-related tax credits are phased in as earnings rise, the marginal tax rate is negative, meaning that an increase of one dollar in earnings results in more than one additional dollar of income, including in-kind and cash income supports. As income levels rise, the marginal tax rate becomes positive, so that an additional dollar of earnings raises income by less than one dollar, due to a loss of in-kind and cash income supports. Very high marginal tax rates can create a disincentive to work more or at a higher wage, which could restrict upward mobility.³

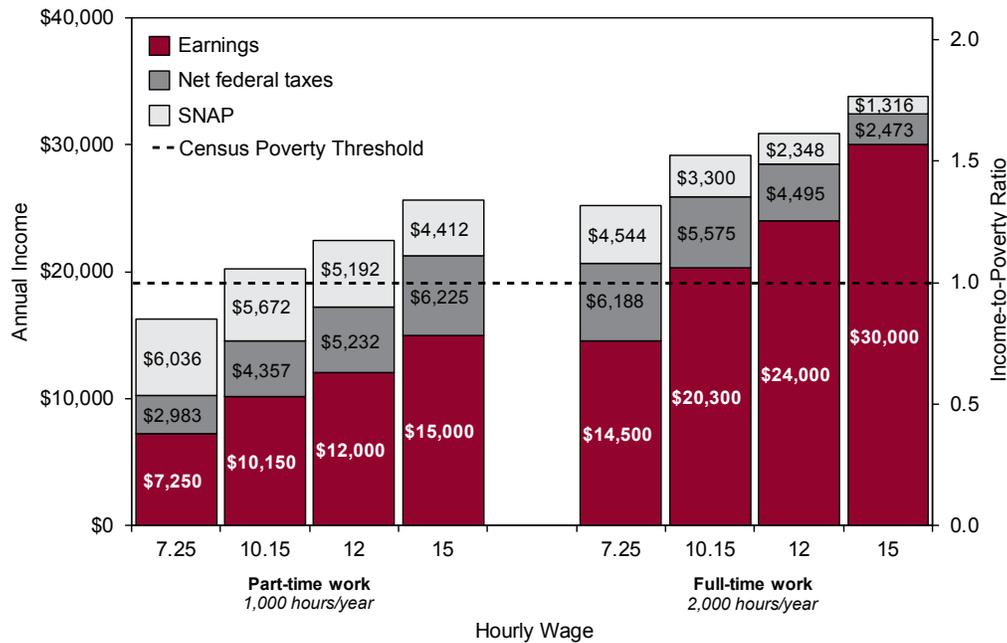


Figure 1. Annual income-to-poverty ratios for a household of one adult and two children.

Source: Authors' calculations.

Notes: Figure reflects 2016 tax and benefit amounts. Net federal taxes include Earned Income Tax Credit, Child Tax Credit, income tax liability, and worker's nominal portion of FICA payroll tax. Supplemental Nutrition Assistance Program (SNAP) benefits calculated based on average of calculators for three states. The poverty threshold is calculated by the Census and published each year.

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The effects of marginal tax rates are illustrated in Figure 1, which shows income-to-poverty ratios for a one-adult-and-two-child household at various wage levels, for both half- and full-time work, using income from earnings plus the income support programs most commonly used by low-income working families: the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Supplemental Nutrition Assistance Program (SNAP).⁴ An increase from \$7.25 to \$10.15 for a half-time worker raises his or her annual earnings by \$2,900, and annual income (including net taxes and the value of SNAP benefits) by \$3,910, reflecting a marginal tax rate of about 35 percent. In contrast, if a full-time worker's wage rises from \$12.00 to \$15.00, his or her annual earnings rise by \$6,000, but annual income rises by only \$2,946, a marginal tax rate of over 50 percent.

Rising marginal tax rates are even more dramatic for families who receive housing and childcare assistance in addition to the benefits reflected in Figure 1. For families who receive these two benefits, full- or part-time work at the current federal minimum wage level puts them above the poverty line, but they also experience very steep marginal tax rates. For example, a full-time worker moving from a \$12.00 to \$15.00 wage would be subject to a marginal tax rate of 95 percent, with nearly every dollar of additional earnings offset by a dollar lost in other income, so that even with a \$6,000 increase in annual earnings, their total annual income would increase by only \$306.

Figure 1 also shows that it is the combination of a higher wage with the tax credits and SNAP that successfully raises total family resources above the poverty line. When the value of the tax credits and SNAP is added to earnings, families with one half-time worker can rise above the poverty line with a wage of \$10.15 or higher, while families with a full-time worker are above the poverty line at any wage.⁵

What can be done to increase the poverty-fighting effects of the minimum wage?

We believe that individuals and families should be able to achieve an income above the poverty line with full-time work, or with half-time work combined with income supports such as tax credits and SNAP.⁶ Further, low-income families should see their income rise as their wages rise, rather than having gains nearly entirely offset by decreases in income supports.

We propose that these goals be achieved by raising the federal minimum wage to \$12.00 per hour, phased in over a period of two years, and keeping the rate indexed for inflation over time. This wage level would allow a family of two adults and two children to earn enough with full-time minimum wage earnings to be above the poverty line. In combination with SNAP and net federal tax credits, a half-time single worker with three or fewer children would also have an income

above the poverty line. The two-year phase-in period would allow employers flexibility in deciding when and by how much to raise wages in order to best absorb higher personnel costs. Indexing the minimum wage for inflation is crucial, as it would preclude the need for such large increases in the future.

Evidence from past state and federal minimum wage increases suggests that an increase from \$7.25 to \$12.00 could lead to reductions in employment. In order to avoid this, we propose offering temporary subsidies to employers of low-wage workers who hire and retain workers at a higher wage during the two-year transition period. This could be done by expanding the Work Opportunity Tax Credit program, which currently provides tax credits to employers who hire from particular target groups such as veterans, SNAP recipients, and released felons.

Our cost estimates indicate that a \$12.00 minimum wage would increase net federal tax revenues, resulting in a net savings of \$19.3 billion for the federal government. We propose that these additional funds be used to lower marginal tax rates below 50 percent for low-income workers, in order to make work pay as earnings increase. There are a number of different ways that this could be done. For example, the EITC phase-out rate could be reduced. The CTC could also be increased to offset high marginal tax rates in other safety

net programs. Alternatively, in-kind supports such as housing and childcare could be expanded to benefit more families.

Evidence suggests that a \$12.00 federal minimum wage, accompanied by temporary, targeted public investments would better target poverty than the current \$7.25 rate, and would lead to net savings that could be used to make work pay for low-income families. ■

¹A. Dube, “Minimum Wages and the Distribution of Family Incomes,” IZA Institute of Labor Economics discussion paper, No. 10572, February 2017.

²D. Neumark and W. L. Wascher, “Minimum Wages and Employment,” *Foundations and Trends in Microeconomics* 3, No. 1–2 (2007): 1–182.

³J. L. Romich, “Difficult Calculations: Low-Income Workers and Marginal Tax Rates,” *Social Service Review* 80, No. 1 (2006): 27–66.

⁴Figure 1 assumes no change in employment as a result of wage changes, it illustrates only the mechanical effect of different minimum wages given a specific number of hours worked.

⁵While the figure shows results only for a household of one adult and two children, this is also true for households with two adults and up to three children.

⁶Because low-wage workers are disproportionately likely to have variable and unpredictable hours, and parents need to balance employment and parenting, we believe that half-time work is an appropriate expectation.

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