# Cash for kids

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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

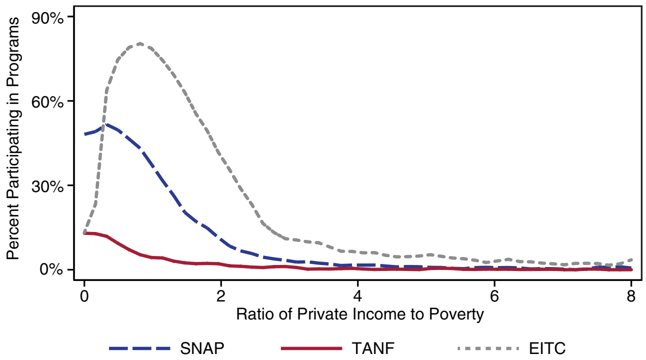


**Figure 1. Household-level program participation by ratio of private income to poverty, 2009.**

**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.



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

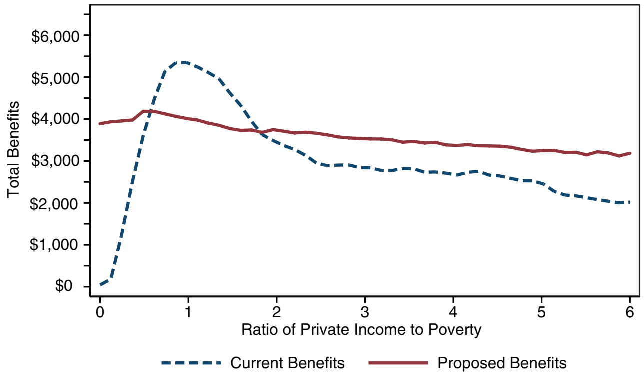


**Figure 2: Distribution of proposed universal child benefit by private income to poverty ratio.**

**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.



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.■

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[1]R. 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.

[2]See, 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.

[3]S. 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).

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

[5]A. 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.

[6]H. 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.

[7]H. 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.

[8]C. 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

[9]M. Bertrand, S. Mullainathan, and E. Shafir, "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.

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

[11]S. 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.

[12]Using 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 Shaefer 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