

# Convert the Child Tax Credit Into a Universal Child Allowance

A policy action to Reduce Extreme Economic Inequality

## Issue

The child poverty rate in the United States has remained stubbornly high, and is much higher than the rates in other advanced industrialized countries. This high rate reflects more on our nation's social policy choices than on demographics or labor market conditions. If poverty is measured on the basis of pretax, pretransfer income, then the U.S. poverty rate is comparable to the rates of other countries in the Organization for Economic Cooperation and Development. Yet the United States stands out in its extremely high rate of posttax, posttransfer poverty.<sup>1</sup> Since welfare reform in 1996, the United States has significantly expanded its work-based social safety net: The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are refundable and paid to wage earners. Millions of children are lifted out of poverty by the combination of the EITC and CTC.<sup>2</sup> However, because of the work-based eligibility rules, one particularly vulnerable group of children has fallen through the cracks: children whose parents are unable to maintain regular work.<sup>3</sup>

For families that cannot find work, or whose work is not enough to garner substantial benefit from work-related tax credits, the only income benefits available are those from the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program. Benefits from SNAP, while providing a critical floor of support for families with children, are limited to food purchases and cannot be used for other essential living expenses such as housing and utilities. Resources allocated to TANF, the cash assistance program established as part of the welfare reform of 1996, have been declining since its inception. The number of families receiving cash assistance per 100 families in poverty has declined from 68 in 1996 to 23 in 2015.<sup>4</sup>

While in-kind benefits are crucial for bolstering the living standards of the poor, a core dilemma facing America's extreme poor is the absence of accessible cash income.<sup>5</sup> Recent research finds evidence of worsening conditions and highly volatile incomes among America's poorest families.<sup>6</sup> Children in families that lack a stable source of income face extensive consequences that become manifest in their adverse health and development outcomes. For this reason, America's transition to a work-based social safety net, begun in the 1990s, remains incomplete; it has failed to ensure a stable source of minimal income for all families with children.

## Action

To counteract these shortcomings of the current safety net, we propose a universal, monthly child allowance that would replace the existing CTC and the child tax exemption with a basic source of regular, dependable cash support for all families with children, including the most vulnerable. A number of researchers from across the ideological spectrum have suggested various policy alternatives for an annual child allowance ranging from \$2,500 to \$4,000 per child. In some variations of this proposal, the benefit is higher for young children. Scholars also recommend that the benefit be paid monthly, rather than annually, to provide a regular source of cash support.<sup>7</sup>

Garfinkel and colleagues estimate that, in 2013, the direct cost for an annual \$2,500 per child benefit would have been roughly \$156 billion. They find that a plan offering a higher benefit of \$4,000 per child under age 6 and \$2,500 for older children would cost \$184.9 billion.<sup>8</sup> The direct costs of such an investment could be partially offset by the elimination of the standard \$4,000 per child tax exemption and the Child Tax Credit currently available to families with children.

## Evidence

A growing body of evidence suggests that cash transfers can improve child health and development. Moreover, cash transfers have been found to be more cost-effective than in-kind benefits in promoting the general well-being of recipients.<sup>9</sup> A quasi-experimental literature has investigated exogenous sources of variation in tax benefits—sources such as the EITC in the United States and the Canadian child allowance—finding improvement in health, school achievement, and general well-being.<sup>10</sup> Income transfer has shown strongest effects among very young children because the developing brain is more sensitive to environmental influences in the first years of life.<sup>11</sup> Yet recent estimates find that, compared with their older counterparts, young children are nearly 50% more likely to be too poor to receive the full CTC.<sup>12</sup> To understand the channels through which income transfer has affected child outcomes, a 2015 study examined expansions to the Canada Child Benefit, finding that income transfers helped children both directly through increases in expenditures on education and health and indirectly through reductions in the household’s financial stress from essential expenses such as rent, food, and transportation.<sup>13</sup>

To estimate the direct effects of a universal child allowance on poverty<sup>14</sup> and deep poverty<sup>15</sup> among children in the United States, Garfinkel and colleagues simulated the addition of income from such an allowance to total household income in the Current Population Survey’s Annual Social and Economic Supplement. Under current tax credit schemes, the 2013 child poverty rate was 16.5% and the 2013 deep poverty rate was 4.5%. The researchers’ estimates show that, if we had adopted a universal child benefit of \$2,500 per year, child poverty would have dropped by over 30% in 2013, falling to 11.4%. They find that deep poverty would have been cut by nearly half, to 2.4%. Under the tiered model, which would grant younger children a \$4,000 benefit, child poverty would have fallen even more, to 10.0%, and deep poverty would have been reduced further to 2.1%. This reduced child-poverty rate is comparable to the adult poverty rate in the United States and to child poverty rates in other affluent countries such as the member states of the Organization for Economic Cooperation and Development.

## Authors

H. Luke Shaefer, *University of Michigan* ([Ishaefer@umich.edu](mailto:Ishaefer@umich.edu))  
 Irwin Garfinkel, *Columbia University* ([ig3@columbia.edu](mailto:ig3@columbia.edu))  
 David Harris, *Children’s Research and Education Institute* ([daveharris@mindspring.com](mailto:daveharris@mindspring.com))  
 Jane Waldfogel, *Columbia University* ([jw205@columbia.edu](mailto:jw205@columbia.edu))  
 Christopher Wimer, *Columbia University* ([cw2727@columbia.edu](mailto:cw2727@columbia.edu))  
 Pinghui Wu, *University of Michigan* ([wuph@umich.edu](mailto:wuph@umich.edu))

## End Notes

1. Organization for Economic Cooperation and Development (2016).
2. Marr, Huang, Sherman, and DeBot (2015).
3. Moffitt (2015).
4. Floyd, Pavetti, and Schott (2017).
5. Edin and Shaefer (2015, 2016).
6. Edin and Shaefer (2015); Jencks (2016); Moffitt (2015).
7. Garfinkel, Harris, Waldfogel, and Wimer (2016); Hammond and Orr (2016).
8. Garfinkel et al. (2016).
9. Hammond and Orr (2016); Muennig, Mohit, Wu, Jia, and Rosen (2016).
10. Dahl and Lochner (2012); Marr et al. (2015); Milligan and Stabile (2011); Strully, Rehkopf, and Xuan (2010).
11. Center on the Developing Child (2016); Duncan, Magnuson, and Votruba-Drzal (2014).
12. Harris (2012).
13. Jones, Milligan, and Stabile (2015).
14. The child poverty rate is defined as the proportion of households that include a child and have total resources amounting to less than 100% of the poverty threshold.
15. The deep poverty rate is defined as the proportion of households whose total resources fall below 50% of the poverty threshold.

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## About this policy action

This policy action statement was developed by members of the network engaged in the Grand Challenge to Reduce Extreme Economic Inequality. The Grand Challenges initiative's policy action statements present proposals emerging from Social Innovation for America's Renewal, a policy conference organized by the Center for Social Development at Washington University in collaboration with the [American Academy of Social Work & Social Welfare](#), which is leading the Grand Challenges for Social Work initiative to champion social progress through a national agenda powered by science.

Grand Challenges for Social Work is an initiative of