

The evidence for (and evolving policy history of) a child allowance in the U.S.

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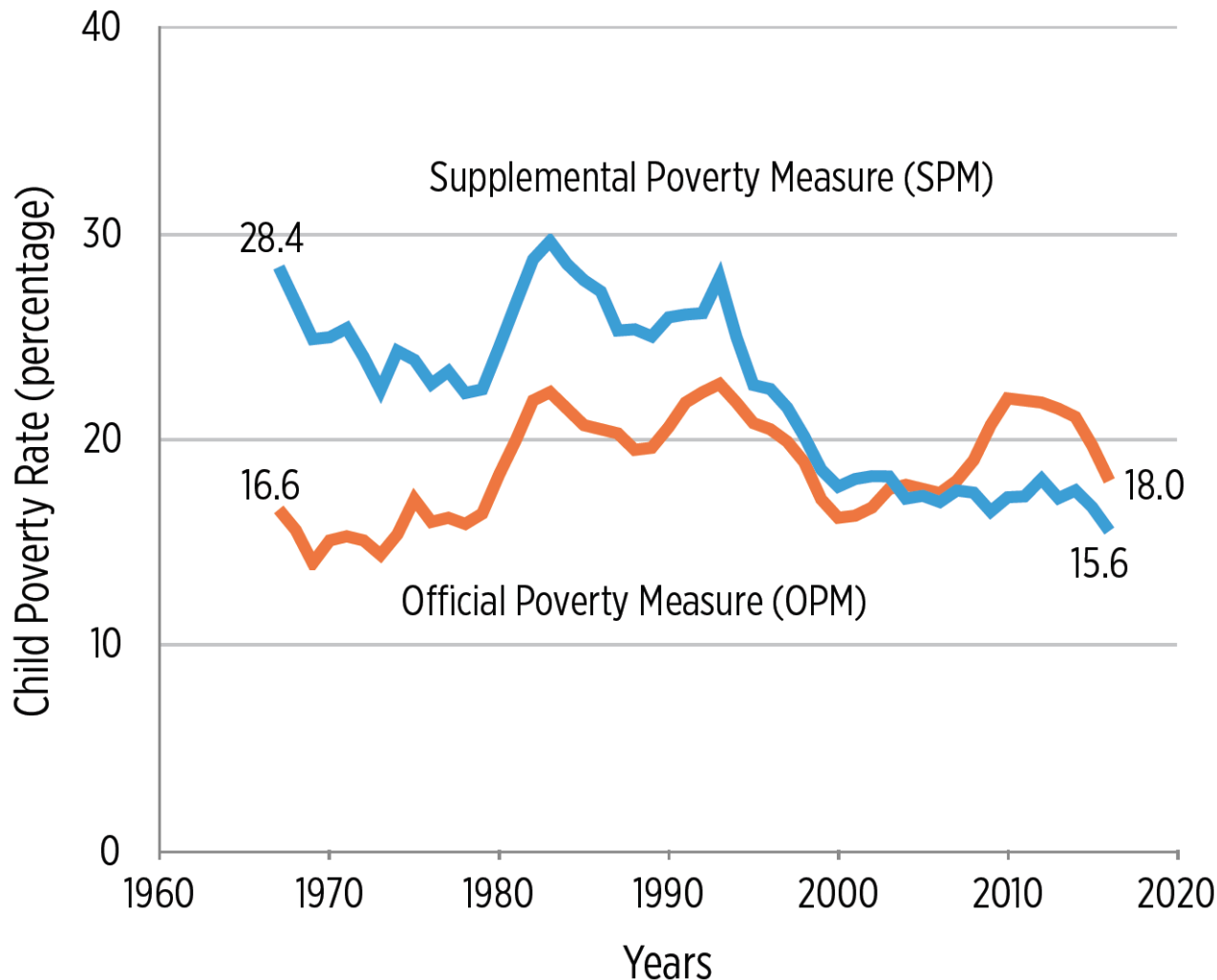
Overview

- Advanced economies provide social safety net programs to low income families with children
- These programs are central for poverty alleviation
- Decades of research document how these programs affect parental labor supply and family income (poverty)
- With recent research we are learning about how and whether these programs affect intergenerational outcomes
- A child allowance is found in most European countries, though not the US
- We now have a child allowance (for one year, 2021); if made permanent would be the biggest child anti-poverty policy in US history.

Roadmap of talk

1. Child poverty and the social safety net in the U.S.
2. What do we know about how reductions in child poverty affect long run outcomes
3. Case Study: Long term effects of food stamps
4. The National Academy of Sciences Report on child poverty
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Child Poverty, 1967-2016



The US measures poverty using an absolute threshold

Official poverty – out of date, based on cash income

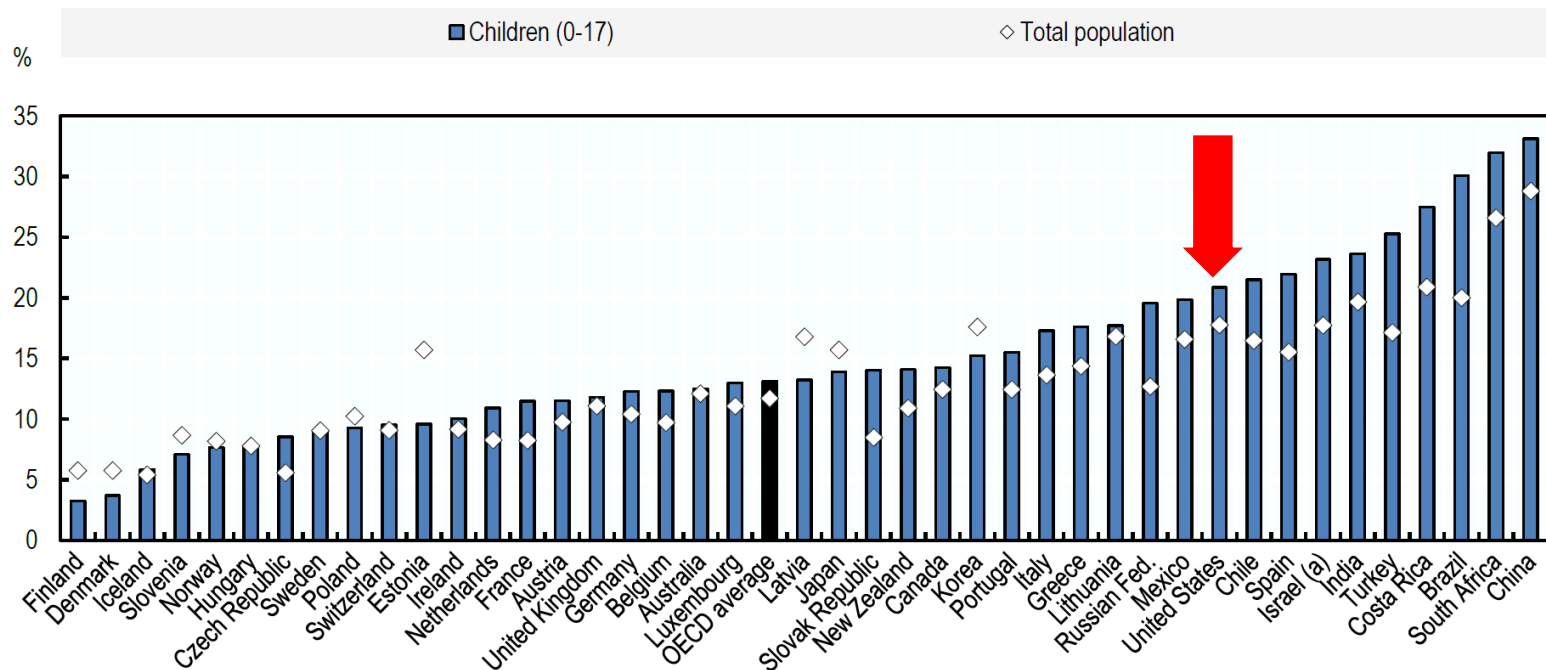
Supplemental poverty – uses after tax income including in-kind transfers, poverty threshold varies by state

FIGURE 2-11 OPM and SPM child poverty rates, 1967–2016.

Source: *A Roadmap to Reducing Child Poverty*, National Academy of Sciences, 2019.

U.S. child poverty rates high by international comparison

Chart CO2.2.A. **Child relative income poverty rate, 2016 or latest available year**
Relative income poverty rate (%), for the total population and for children (0-17 year-olds)



Note: Data are based on equivalised household disposable income, i.e. income after taxes and transfers adjusted for household size. The poverty threshold is set at 50% of median disposable income in each country. Data for India and China refer to 2011, for Brazil to 2013, for New Zealand to 2014, for Iceland, Japan, Switzerland, Turkey and South Africa to 2015, and for Chile to 2017.

Income support for the poor in the U.S.

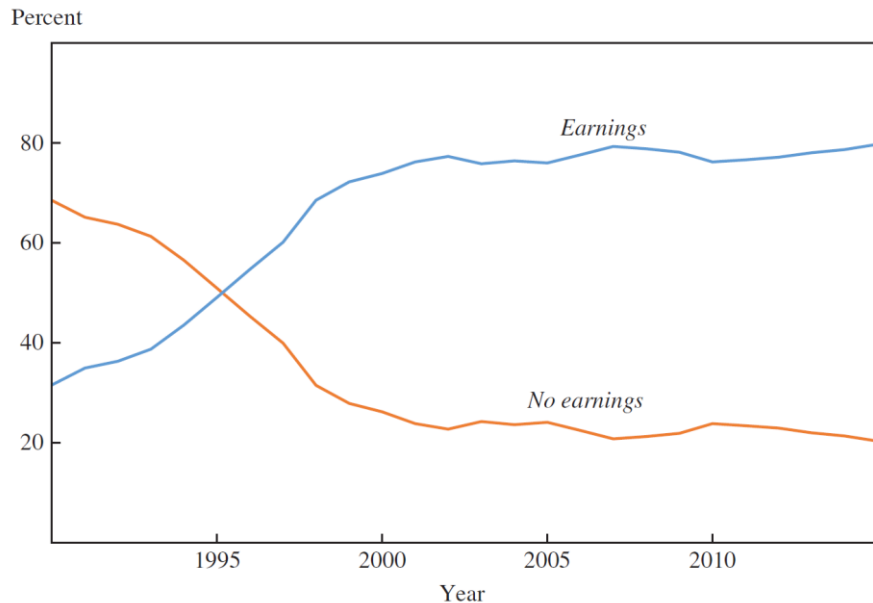
- Not universal – targeted at elderly, disabled and families with children (prime age adults without children, undocumented immigrants left out)
- Little in cash – tax credits, food and nutrition programs
- Heavy use of conditionality – increasingly linked to work
- Funding levels not high – compared to other countries

Growing Conditionality

- *Mid-1990s and beyond:* Welfare reform and the rise of the Earned Income Tax Credit
- *2010s:* Expanding work requirements to other programs
 - SNAP and Medicaid
- U.S. safety net largely *topping up work* but providing little protection out of work.
- Evidence from Great Recession shows *greater volatility* at lower incomes, consistent with these changes leading to less insurance in the system

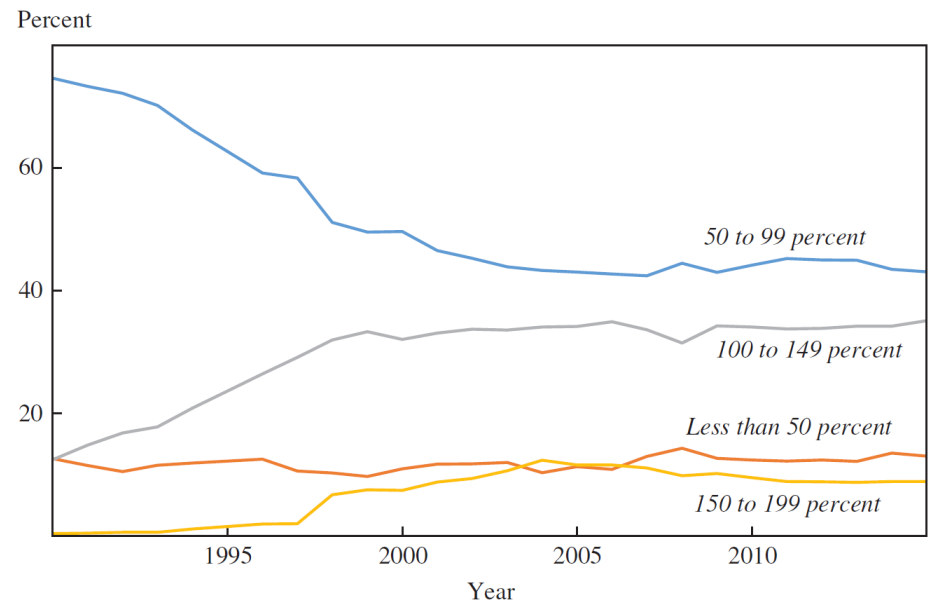
Consequence of these changes: Increasing share of child benefits going to *earners, those above poverty*

(a) Share of total spending, by earning status



Sources: Various administrative sources (see the online appendix); authors' calculations.
a. Programs include SNAP, AFDC/TANF, EITC, and CTC.

(b) Share of total spending, by income

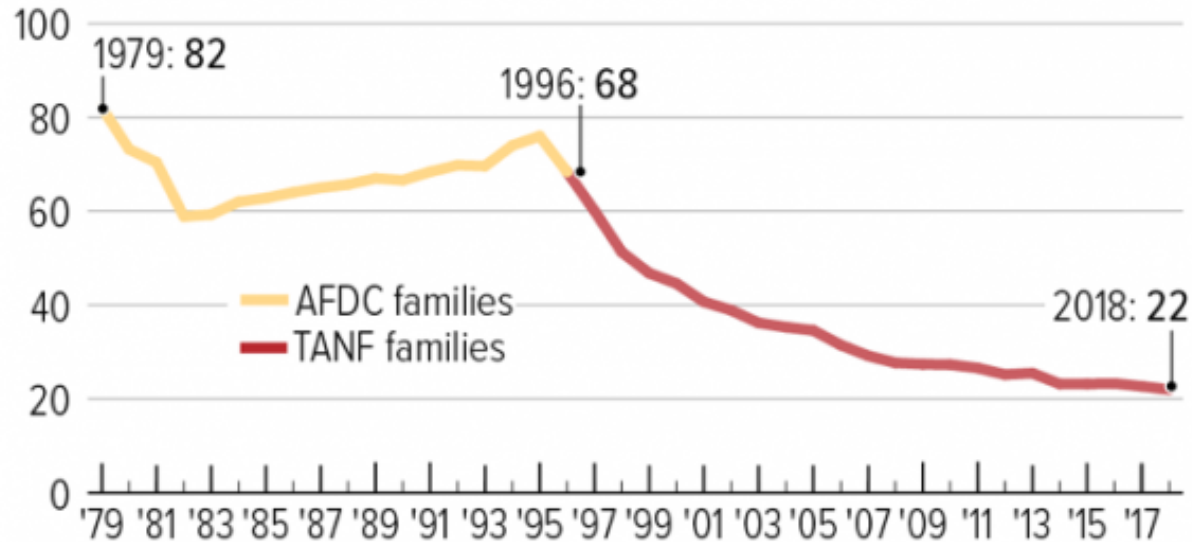


Sources: Various administrative sources (see the online appendix); authors' calculations.
a. Programs include SNAP, AFDC/TANF, EITC, and CTC. The line captions denote family income as a percentage of the supplemental poverty measure.

Consequence of these changes: Dramatic reduction in cash assistance for poor families with children

TANF's Reach Declined Significantly Over Time

Number of families receiving AFDC/TANF benefits for every 100 families with children in poverty



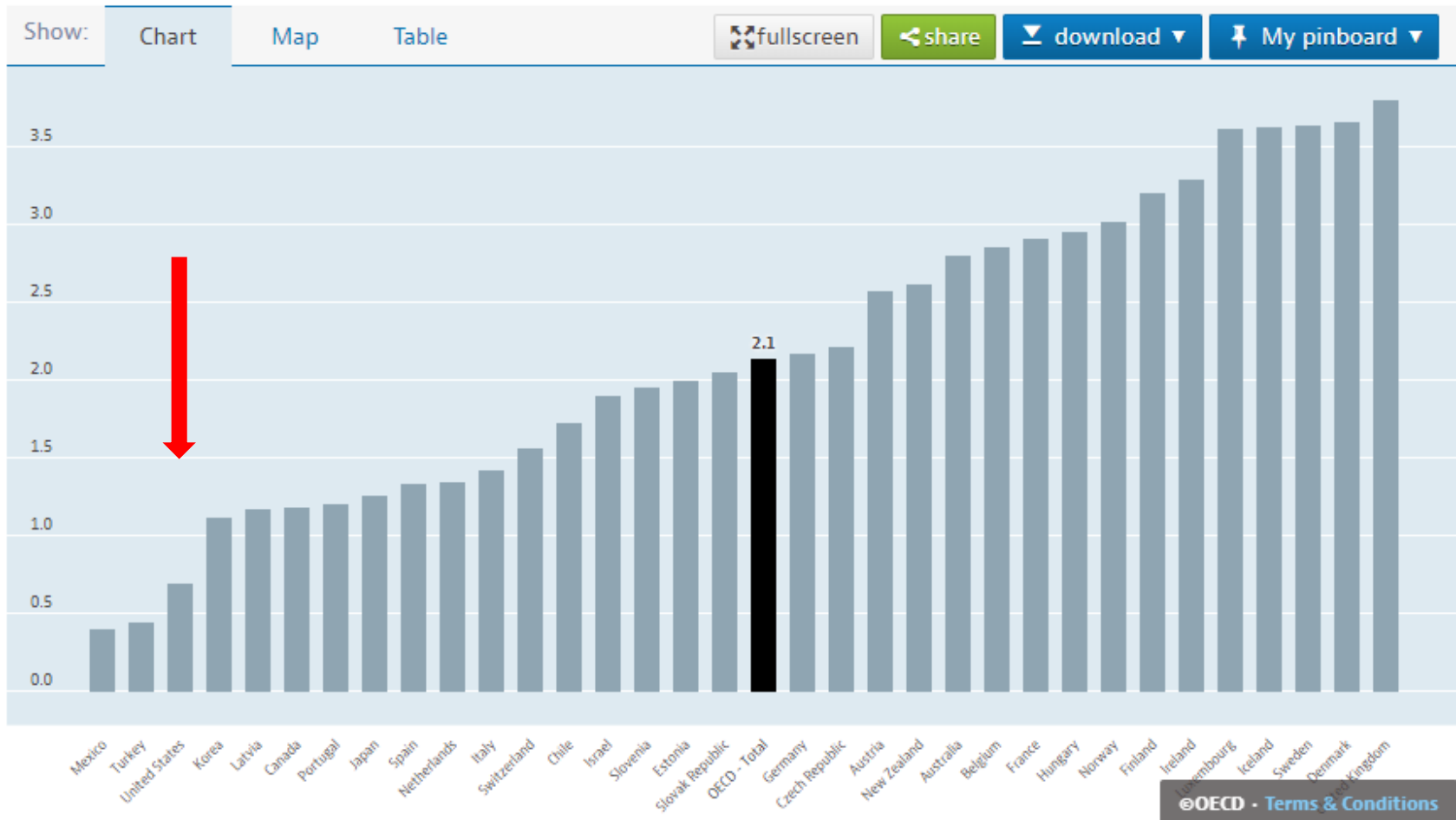
Note: TANF = Temporary Assistance for Needy Families, AFDC = Aid to Families with Dependent Children.

Source: CBPP analysis of poverty data from the Census' Current Population Survey and AFDC/TANF caseload data from Department of Health and Human Services and (since September 2006) caseload data collected by CBPP from state agencies.

U.S. spending on family benefits is low by international comparison

Family benefits public spending Total, % of GDP, 2015 or latest available

Source: Social Expenditure: Aggregated data



Effect of the social safety net on child poverty

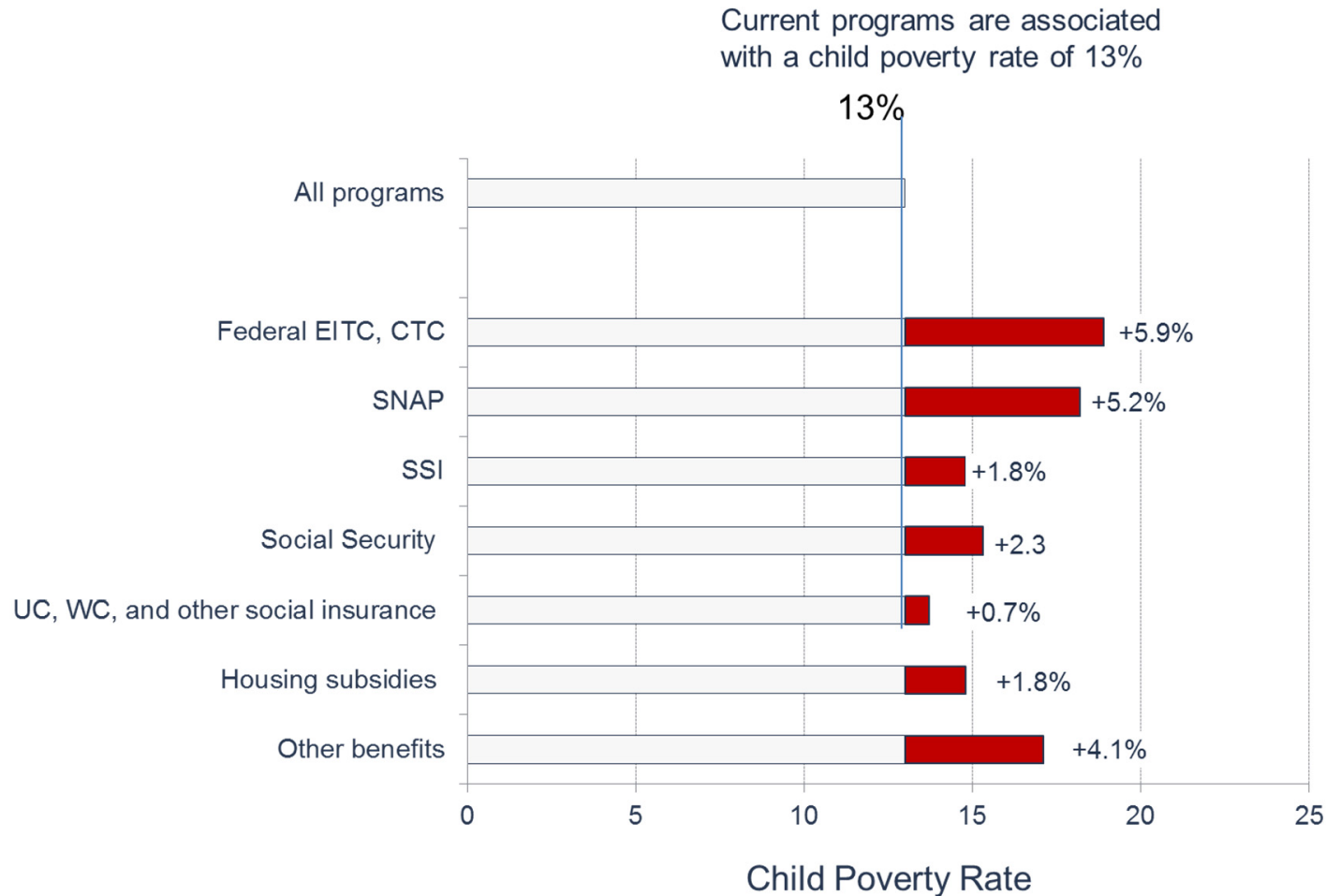


FIGURE 4-9 “What-if” Child Poverty Rates With the Elimination of Selected Federal Programs.

Source: *A Roadmap to Reducing Child Poverty*, National Academy of Sciences, 2019.

Other benefits include TANF, means-tested veterans benefits, means-tested education assistance, LIHEAP, the National School Lunch Program, and WIC.

Effect of the social safety net on *deep* child poverty ($<50\%$ poverty)

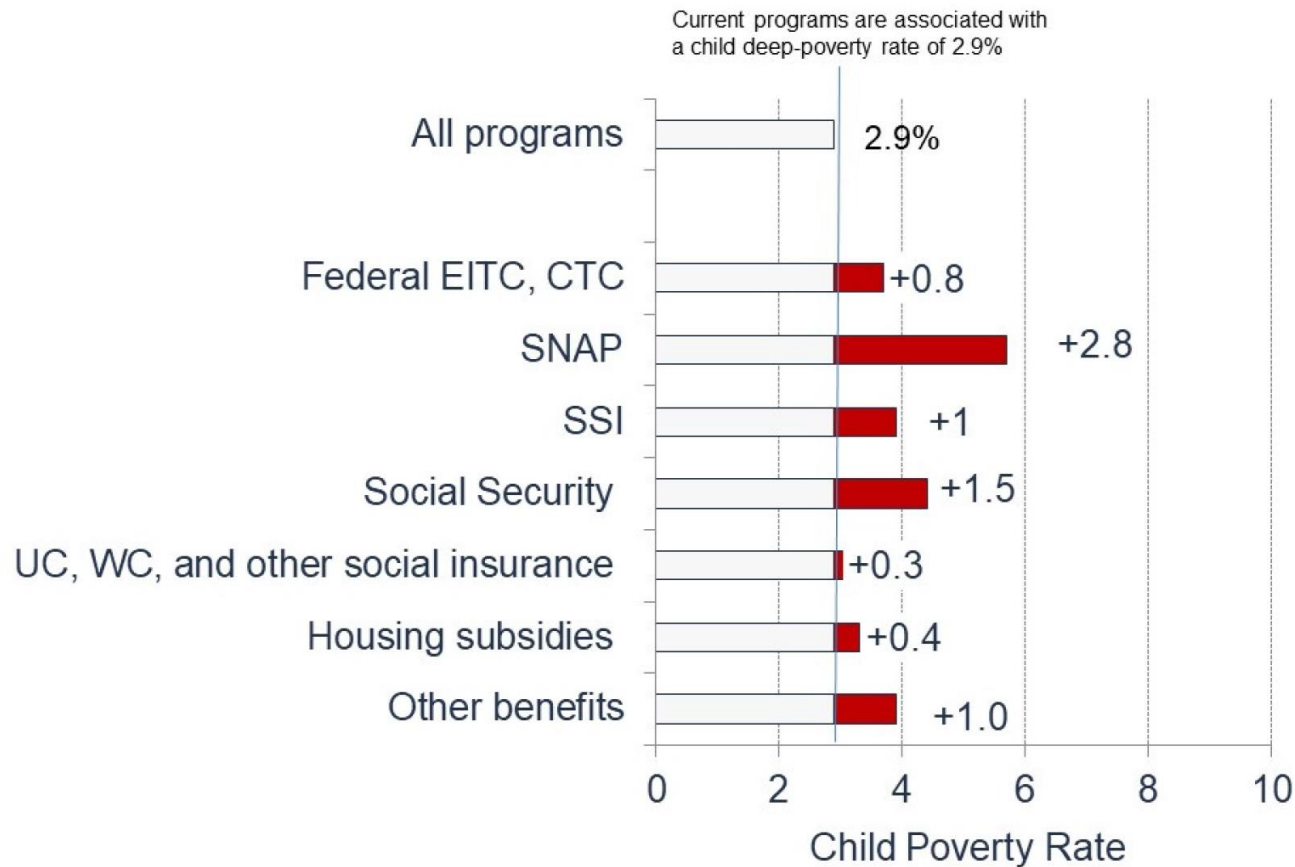


FIGURE 4-10 “What-if” Child Deep Poverty Rates With the Elimination of Selected Federal

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Evidence on the effects of income on child health and economic well being

Sources of Causal Evidence:

Earned Income Tax Credit

SNAP / Food Stamps

Early cash assistance programs (early 20th c.)

Other income interventions

Short Run Effects:

Infant health (at birth)

Child health

Food Insecurity

Human capital

Long Run Effects:

Education, Earnings and income, Crime

Adult health

Mortality

Long Run effects of additional resources in childhood

- *Cash welfare*: early 20th century program leads to improvements in longevity, educational attainment, nutritional status, and income in adulthood (Aizer et al 2016)
- *SNAP*: Increases education, earnings, health in adulthood (Hoynes et al 2016, Bitler and Figinski 2018, Goodman-Bacon 2016, Bailey et al 2020)
- *EITC*: increases children's cognitive outcomes (Dahl and Lochner 2012, 2017, Chetty et al. 2011) increases educational attainment and employment in young adulthood (Bastian and Michelmore 2018)
- *Tribal government UBI*: improvement in mental health, reduction in substance abuse, crime, and increase in educational attainment (Akee et al. 2010, 2018; Costello et al., 2010)

(See Hoynes and Schanzenbach 2018, Page 2021 for reviews)

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“Is the Social Safety Net a Long-Term Investment?
Large-Scale Evidence from the Food Stamps
Program”

Martha Bailey (Michigan)

Hilary Hoynes (UC Berkeley)

Maya Rossin-Slater (Stanford)

Reed Walker (UC Berkeley)

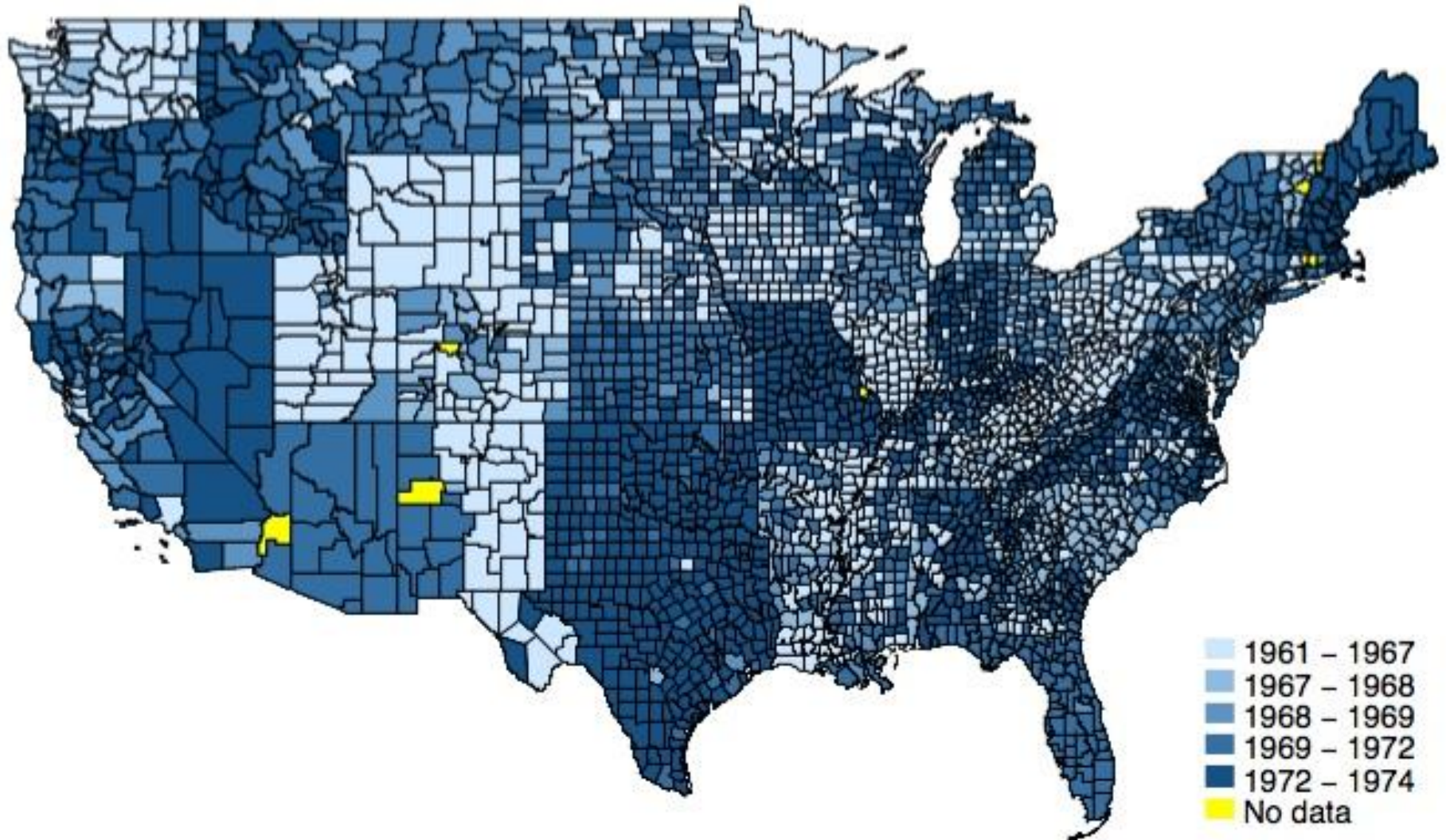
Supplemental Nutritional Assistance Program

- Previously known as Food Stamps
- Pre-COVID SNAP served 40.3 million people in 20 million households at a cost of \$65 billion dollars (increased >30% during COVID)
- Average monthly benefit \$252 per household, About \$4 per person per day
- Means tested: eligibility requires gross monthly income to be below 130 percent of poverty; phased out at 30%
- Benefits are vouchers that can be used at grocery stores
- Available nationally since 1975; federal program with little variation across local areas

The Food Stamp Program and Historical Rollout

- In a series of studies, I have used the historical rollout of food stamps to evaluate the short and long run effects of the program
- Use initial rollout of the Food Stamps, which took place across the approx. 3200 U.S. counties over 1961-1975
- Key markers in this history:
 - 1961: pilot programs launched by Pres. Kennedy
 - 1964: Food Stamp Act, voluntary adoption across counties (subject to funding)
 - 1975: universal coverage following the 1973 amendments
- This allows us to use a county quasi-experimental research design

To investigate the long run effects of Food Stamps, we leverage the **across county rollout** between 1961 and 1975



Using the Rollout to Identify LR Effects of SNAP

- Rollout occurred between 1961-1975
- In our data if we know **where** (what county) and **when** a person was born, we can assign them *the age they were first exposed to SNAP*
- Using variation across cohorts with varying degree of exposure, we can identify the effects of childhood exposure in the long run (e.g. by ages in the mid 50s).
- Difference in difference approach – across counties and birth cohorts
- We present results using event study and early life exposure (% of time between conception and age 5)

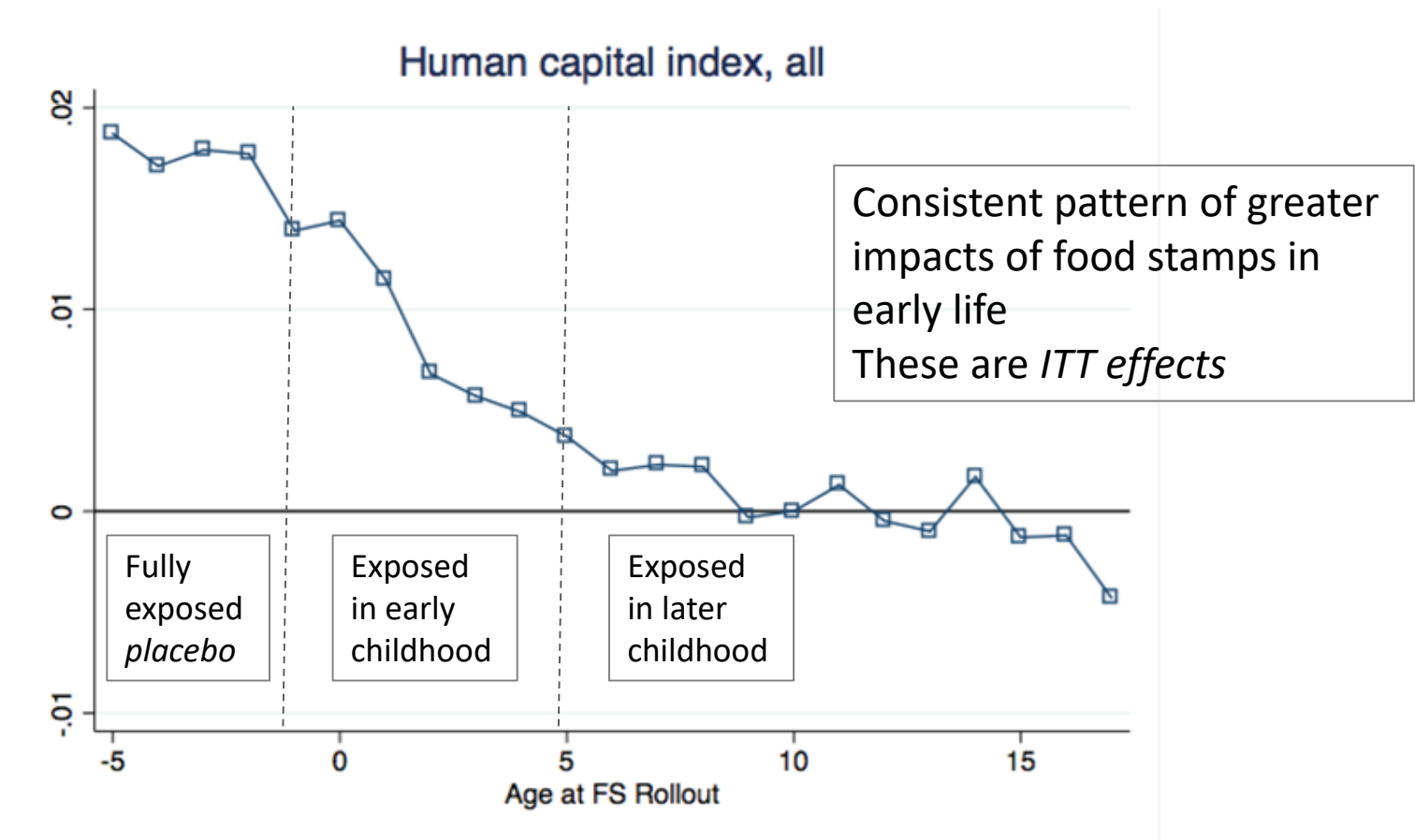
Why might SNAP affect adult outcomes?

- FSP leads to increases in income and nutrition. Early life nutrition and resources may translate to later life economic and health outcomes
- HEALTH OUTCOMES: Evidence from “Fetal origins” hypothesis (see, e.g. Barker 1990) establishes that better early life nutrition (*pre & post natal*) leads to improvements in adult health.
- ECONOMIC OUTCOMES: Many settings show that investments during early life leads to improved outcomes in adulthood. Investments early may yield higher returns than investments later
- Additional resources through FS may also reduce stress, which is an additional pathway for improving long run outcomes (Aizer et al 2015, Black et al 2016, Evans and Garthwaite 2014, Fernald and Gunnar 2009, Haushofer et al 2012, Persson and Rossin-Slater 2018)
- **Implication: more food stamps in childhood → better outcomes in adulthood.**

Data, Sample and Outcomes

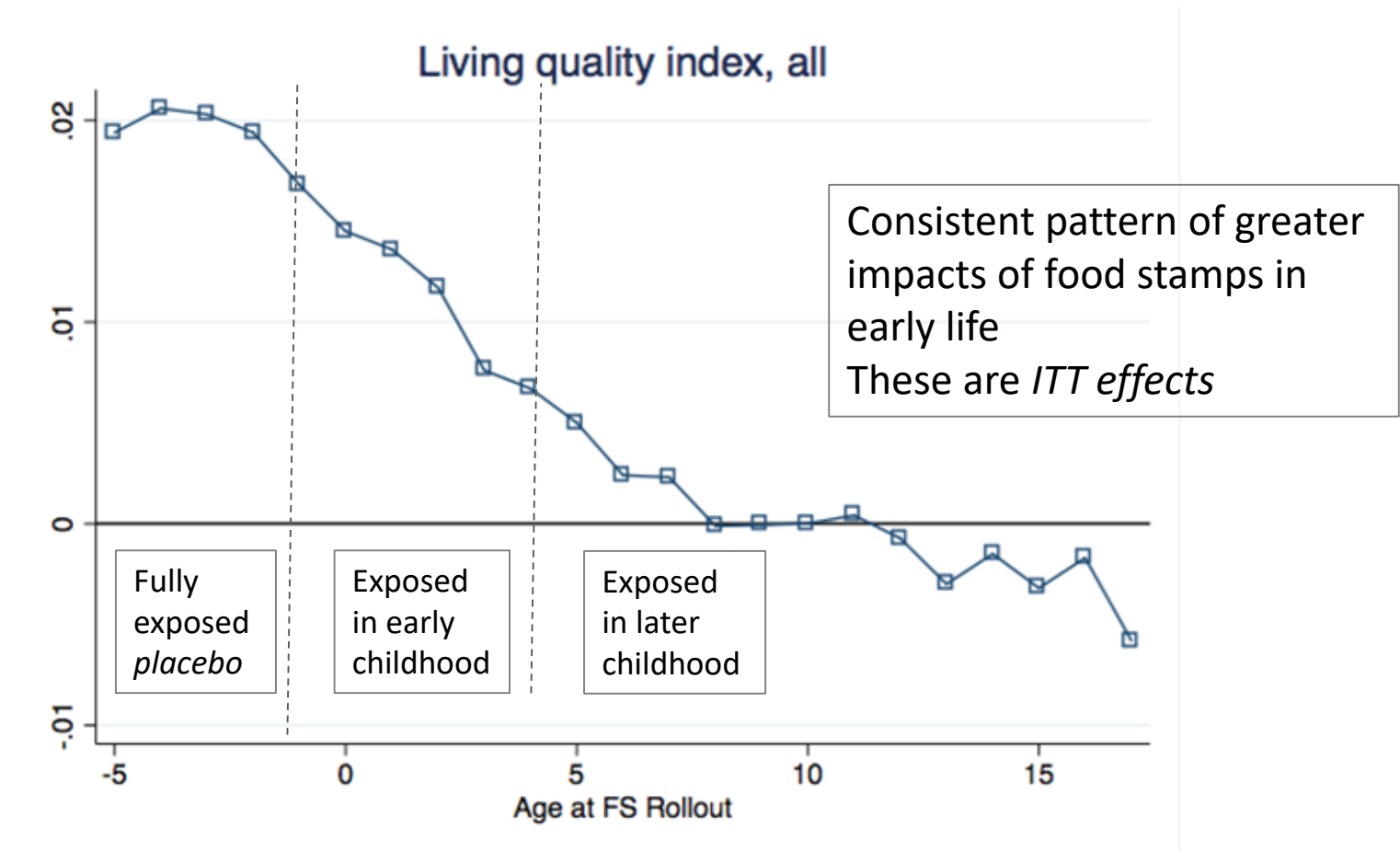
- Data: 2000 Census 1-in-6 sample and 2001-2013 ACS linked to the Social Security Administration *NUMIDENT* file, which records date and place of birth and death
- Individuals born in the U.S. between 1950 and 1980 observed at ages 25-54
- Estimation sample: >17 million individuals of linked survey-administrative data
- Examine a comprehensive set of outcomes: human capital, economic well-being, neighborhood quality, disability, mortality, incarceration
- To handle multiple outcomes: we construct indices equal to average of standardized outcomes (using mean and SD of untreated cohorts)

Food stamps in early childhood leads to improvement in human capital



Human capital index: completed schooling, professional degree, professional occupation
In standard deviation units

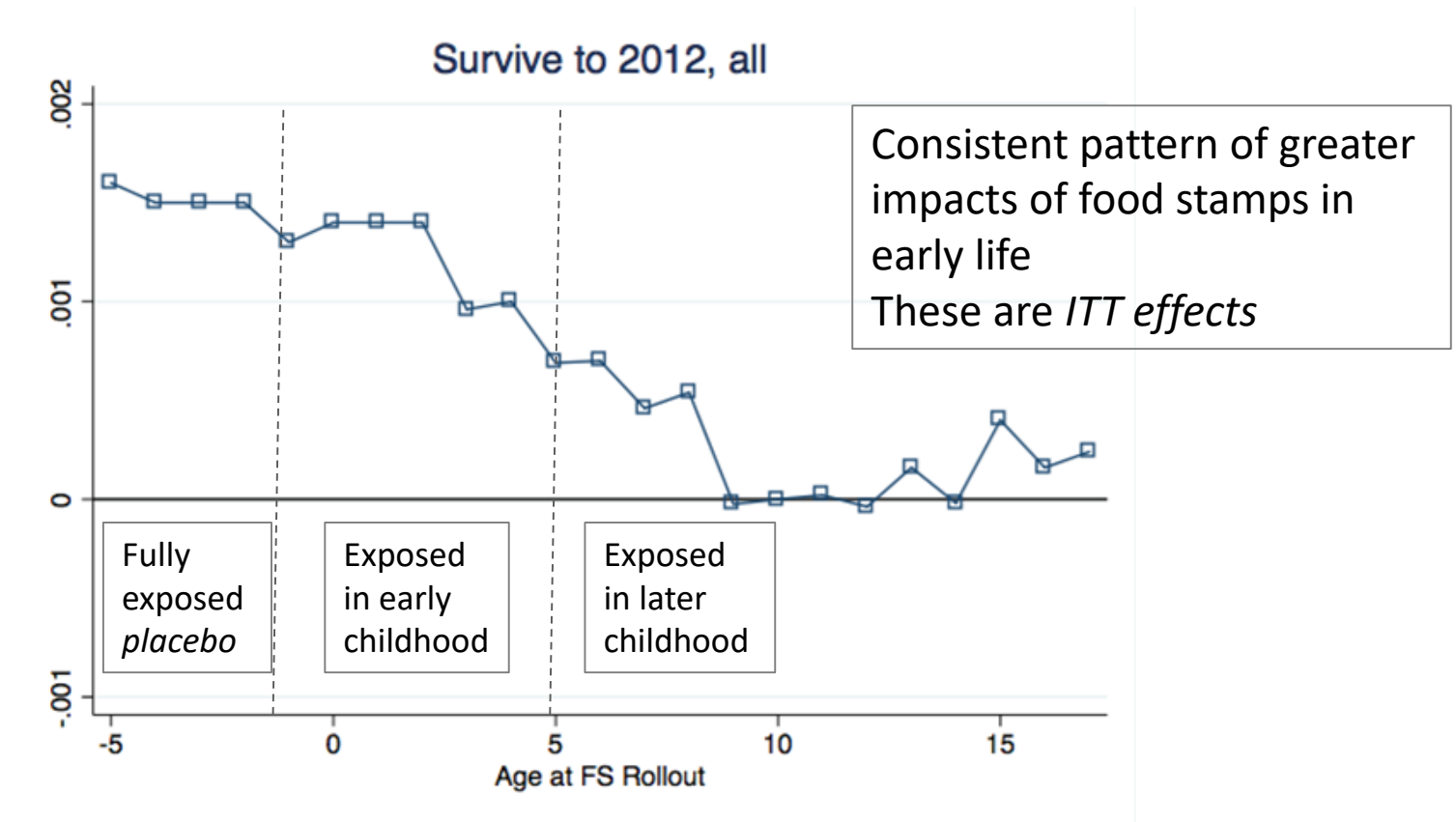
Food stamps in early childhood leads to improvement in neighborhood quality



Neighborhood/Living quality index: home ownership (and value), single family residence, census tract characteristics (child poverty, teen pregnancy, share home owners, etc), county upward mobility (Chetty et al 2014)

In standard deviation units

Food stamps leads to a reduction in mortality



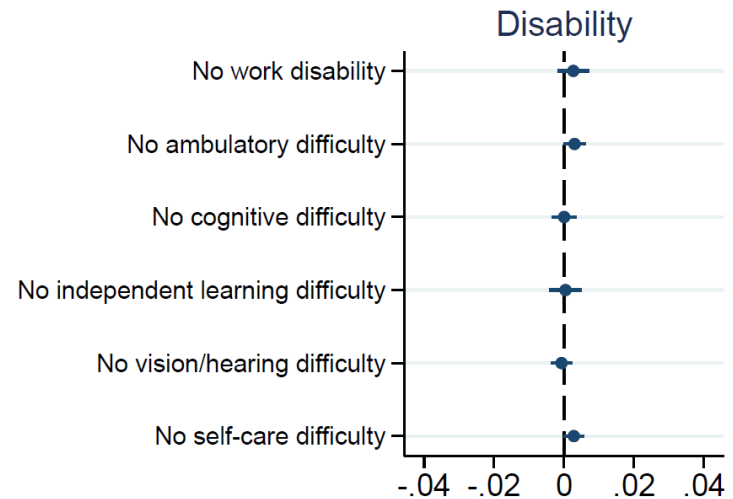
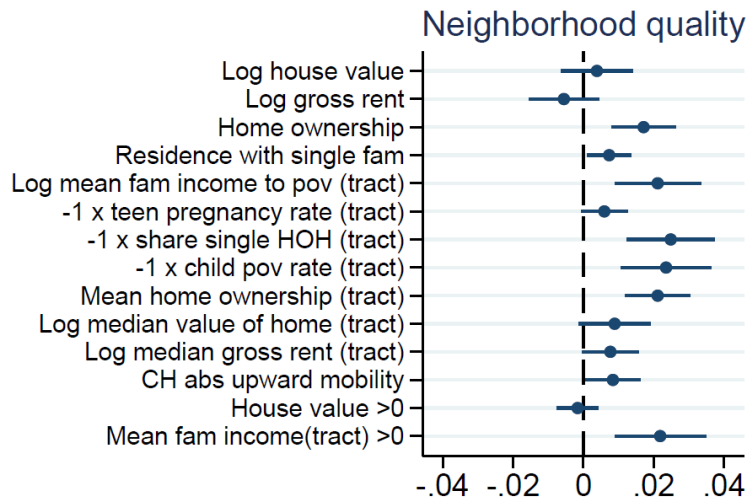
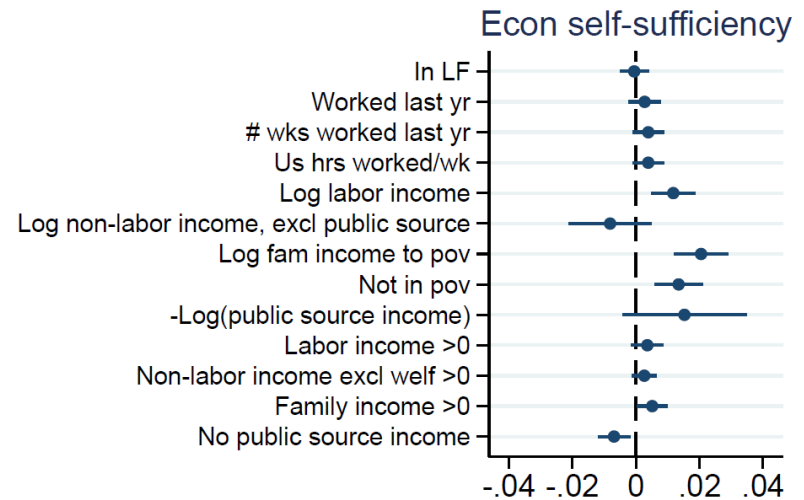
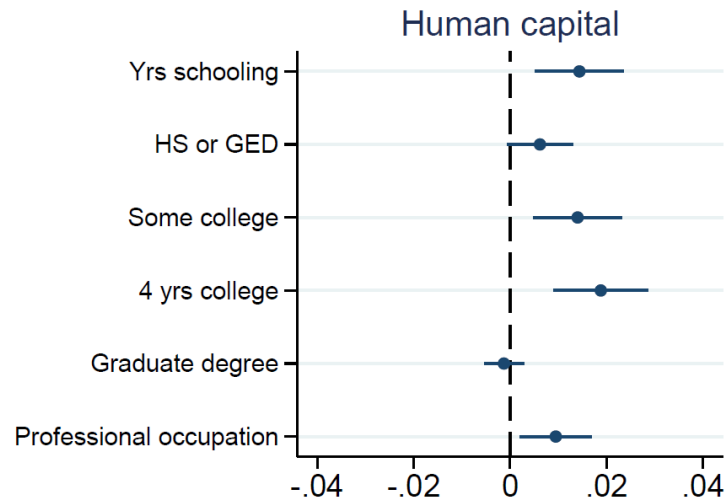
Note: Outcome is the share in the cell that survived to 2012 (mean=0.96).
In percentage point units

Magnitudes for LR Effects of Food Stamps

- Converting from ITT \rightarrow TOT, we use the child food stamp participation rate during this time (16%)
- Exposure to FS from conception to age 5 for those affected by the program leads to TOT effects:
 - 0.06 SD increase in human capital index
 - 0.07 SD increase in neighborhood quality index
 - 0.4 percentage point increase in survival (11% reduction in mortality)
 - 0.5 percentage point increase in not being incarcerated
- For comparison the effects on human capital are a bit smaller than effects of Head Start; the effects on mortality are a bit larger than having access to Medicaid over the same period.

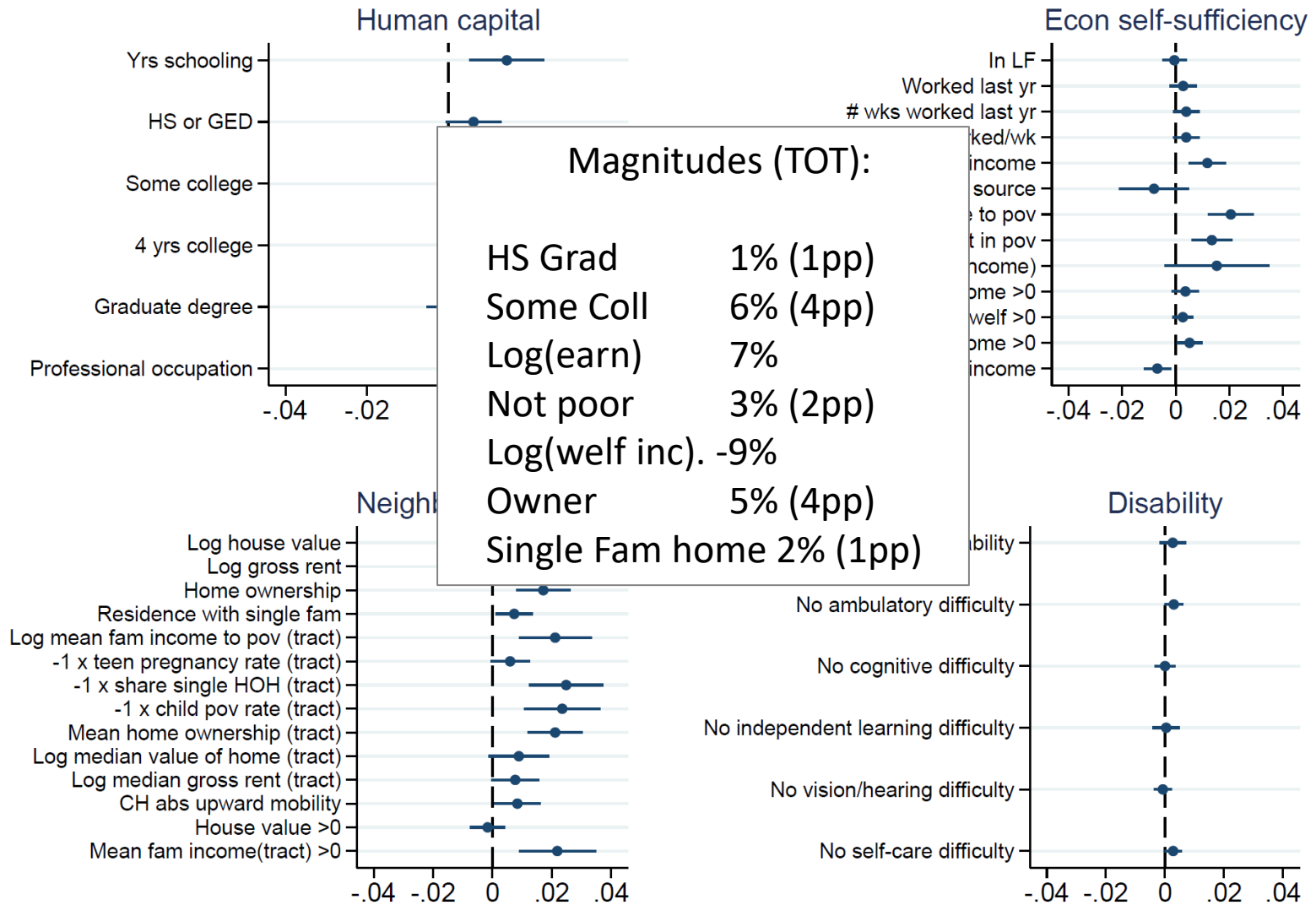
Individual Outcomes (Exposure model, SD units)

Widespread positive impacts



Individual Outcomes (Exposure model, SD units)

Widespread positive impacts



Welfare: Estimated marginal value of public funds

$$\text{MVPF} = \text{Benefits} / \text{Net Govt Cost (fiscal externalities pos + neg)}$$

We follow the methodology from Hendren & Sprung-Keyser (2020):

- Benefits = recipients' willingness-to-pay for the program
- Costs = initial program spending + LT impact of program on gov't budget

Willingness-to-pay among families with young children:

- ↑ children's long-term earnings → PDV of lifetime income
- ↑ children's life expectancy → monetize using estimate of value of statistical life

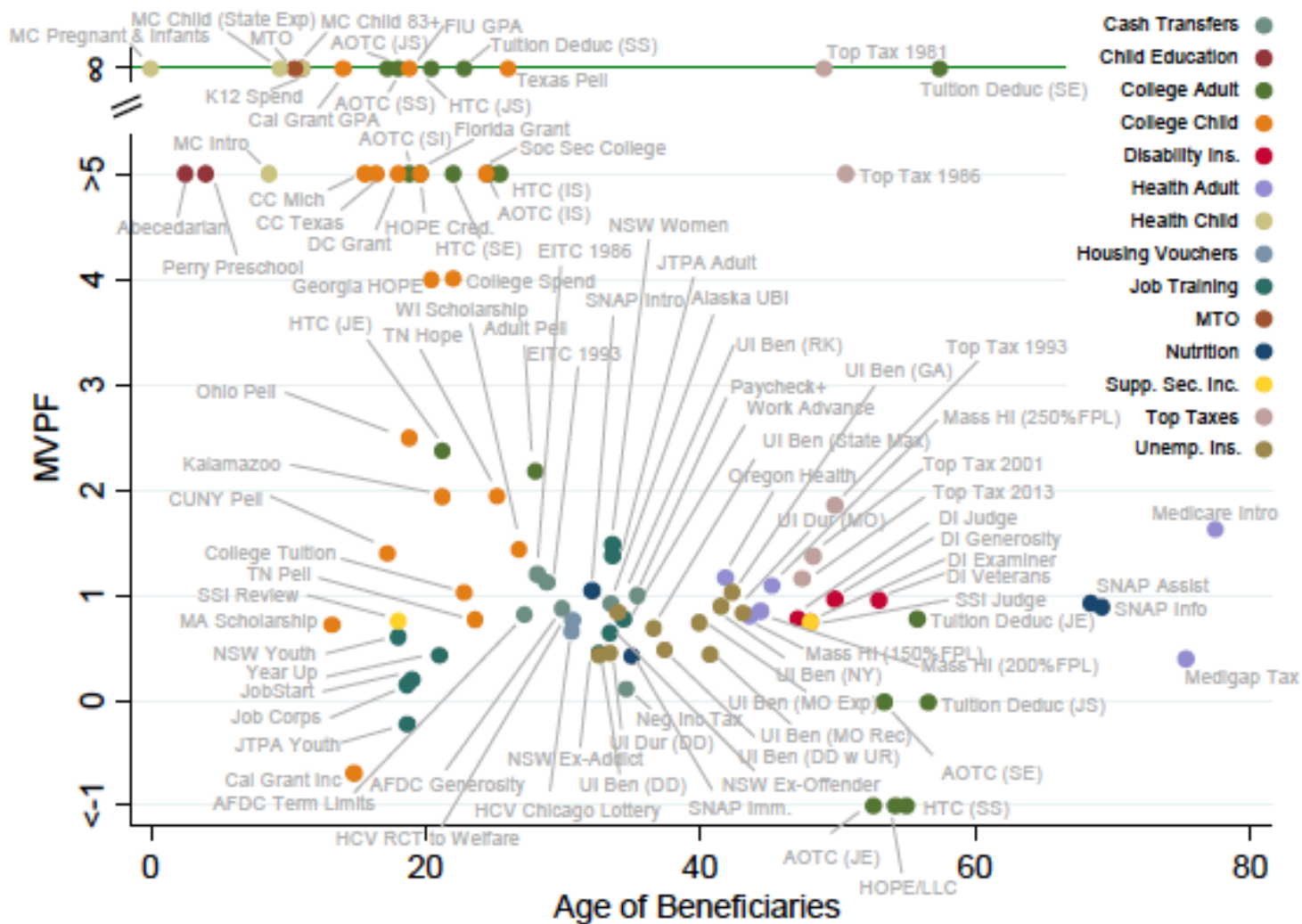
Impact on government budget (fiscal externalities):

- ↓ parents' labor earnings → less tax revenue (Hoynes & Schanzenbach, 2012)
- ↓ children's long-term public assistance income → less gov't spending
- ↓ children's incarceration → lower cost of incarceration
- ↑ children's long-term labor earnings → more tax revenue

We calculate MVPF = 56.25

The MVPF of Food Stamp is large relative to a wide range of interventions

FIGURE III: MVPF Estimates by Age of Policy Beneficiary

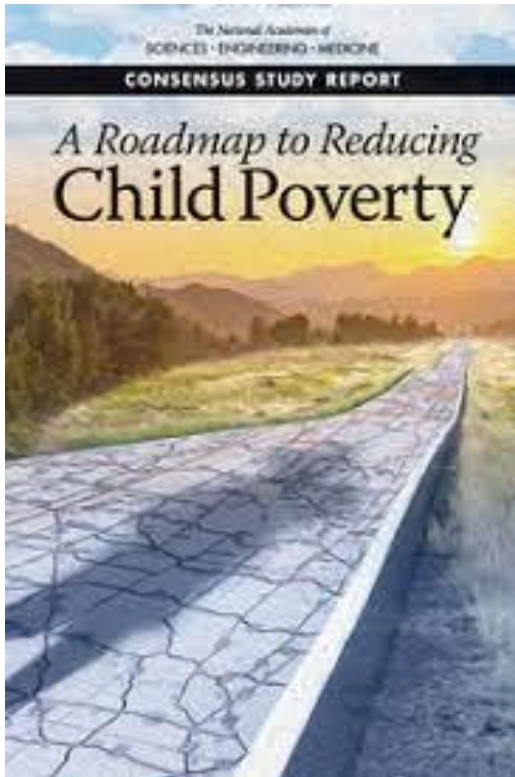


Source: Hendren and Sprung-Keyser (2019)

Roadmap of talk

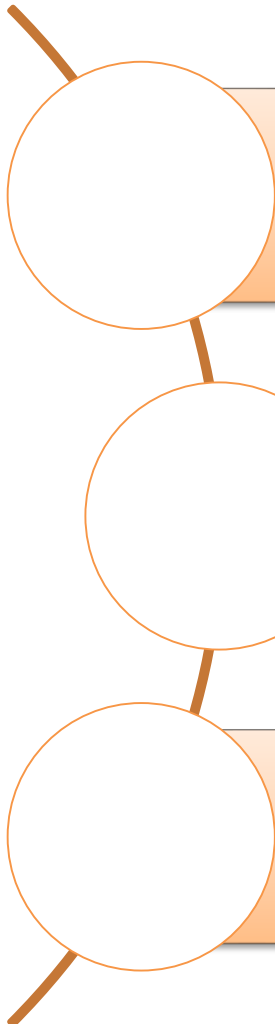
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Research in the Public Interest



I was a member of the **National Academy of Sciences** committee tasked with proposing policies to reduce child poverty by half in 10 years.

Committee: Statement of Task



1. Review research on linkages between child poverty and child well-being

2. Analyze the poverty-reducing effects of existing major assistance programs directed at children and families

3. Provide a list of alternative evidence-based policies and programs that could reduce child poverty and deep poverty by 50% within 10 years

Committee Conclusions: Causal Impacts of Child Poverty

- The weight of the causal evidence indicates that poverty itself causes negative child outcomes, especially when poverty occurs in early childhood or persists throughout a large portion of childhood.
- Many programs that alleviate poverty, either directly, by providing income transfers —e.g., EITC— or indirectly, by providing food, housing or medical care —e.g., SNAP, medical insurance—have been shown to improve child well-being.

The Committee Developed:



20 individual policy and program options

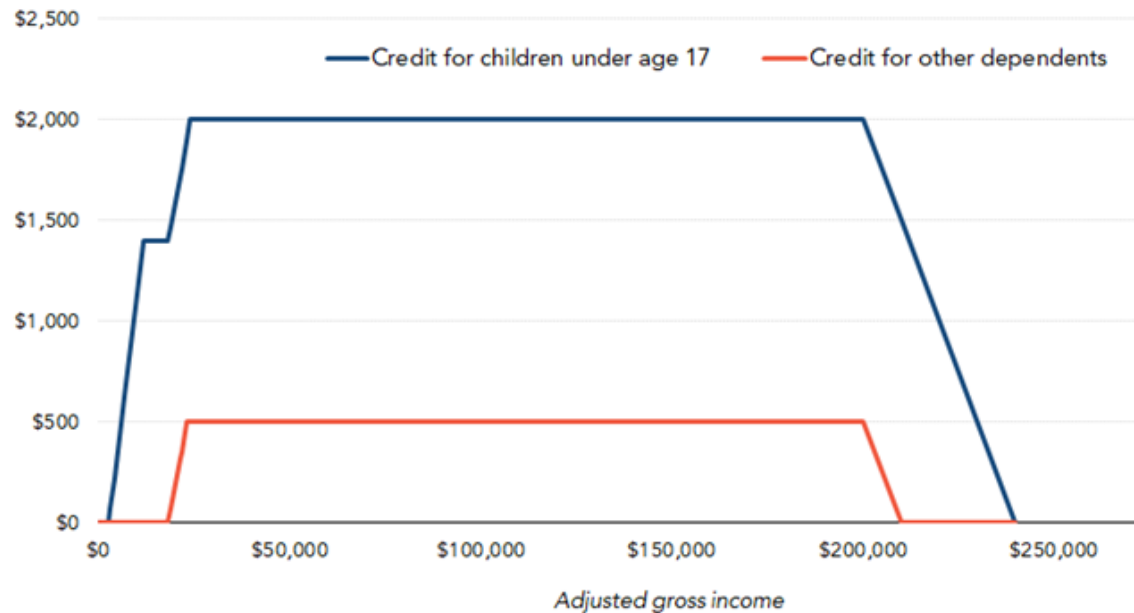
4 policy and program packages

Child Allowance

- A central policy we explored was a child allowance
- Child allowances are widely used in European countries, as well as Canada and Australia
- Features of a child allowance: monthly, unconditional (no work requirements)
- The structure of child allowances vary across countries
 - Some are universal, some more targeted
 - Canadian Child Benefit - used as a model. Introduced in 2016 and on track to reduce child poverty by half [\$6,000/yr CAD phased out between 200 and 300 poverty of poverty]

Background: U.S. Child Tax Credit 2020

FIGURE 1
Child Tax Credit, Single Parent
For one child, tax year 2020



Source: Urban-Brookings Tax Policy Center calculations.

Notes: Assumes all income comes from earnings, and child meets all tests to be a CTC-qualifying dependent. Credit for parents begins to phase out at \$400,000 of income. Only citizen children qualify for the \$2,000 CTC for children under 17. Noncitizens under age 17 who meet the dependency tests of eligibility can qualify for the credit for dependents over age 17.

The US does not have a child allowance. Closest thing is the Child Tax Credit.

Not fully refundable

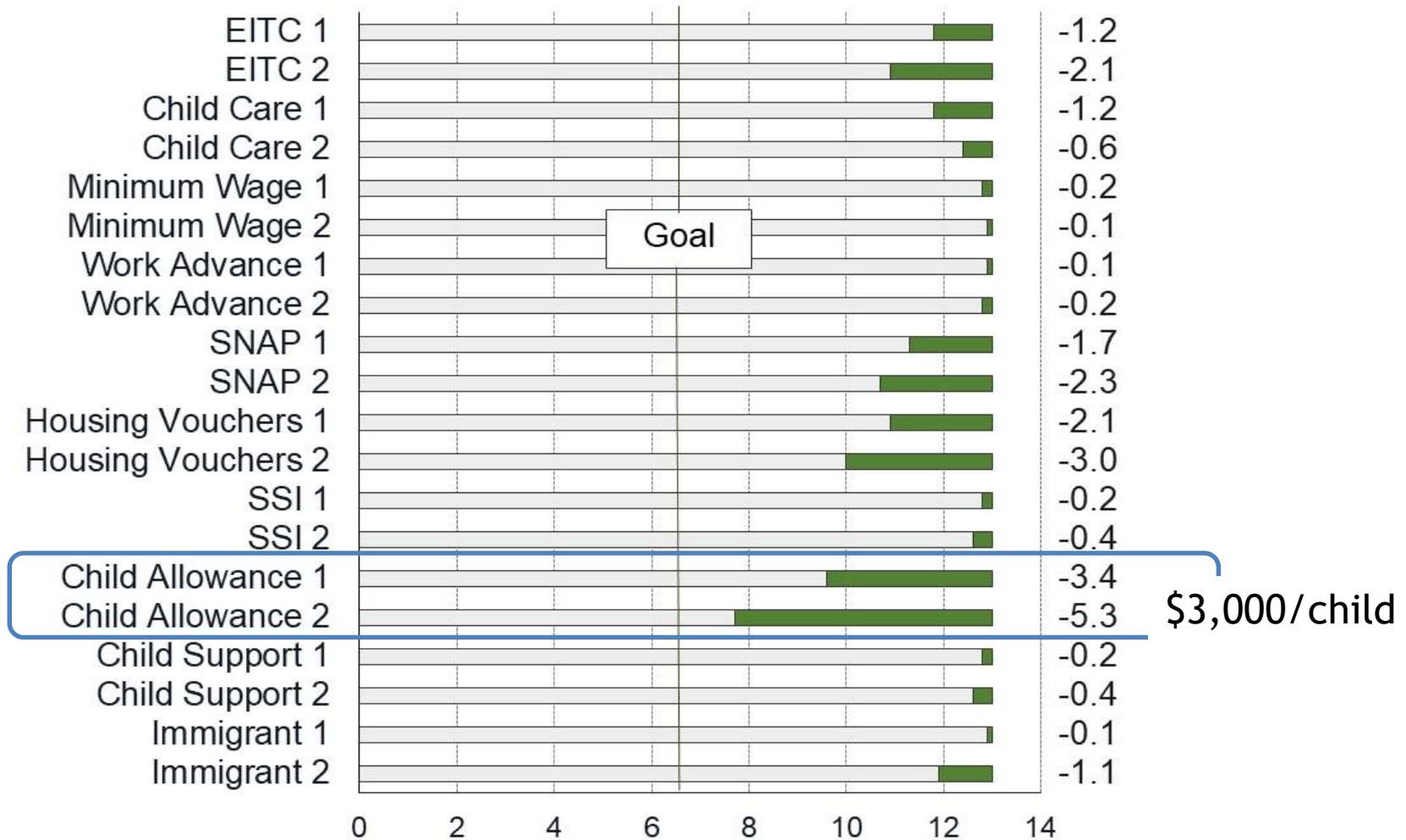
Lowest income families NOT eligible!

Annual payment

2% of children are in families with incomes too high to get full CTC

35% of children are in families with incomes too low to get the CTC

Our committee simulated 20 policies - the child allowance produced the largest poverty reduction



Packages of policies met our 50% poverty reduction goal

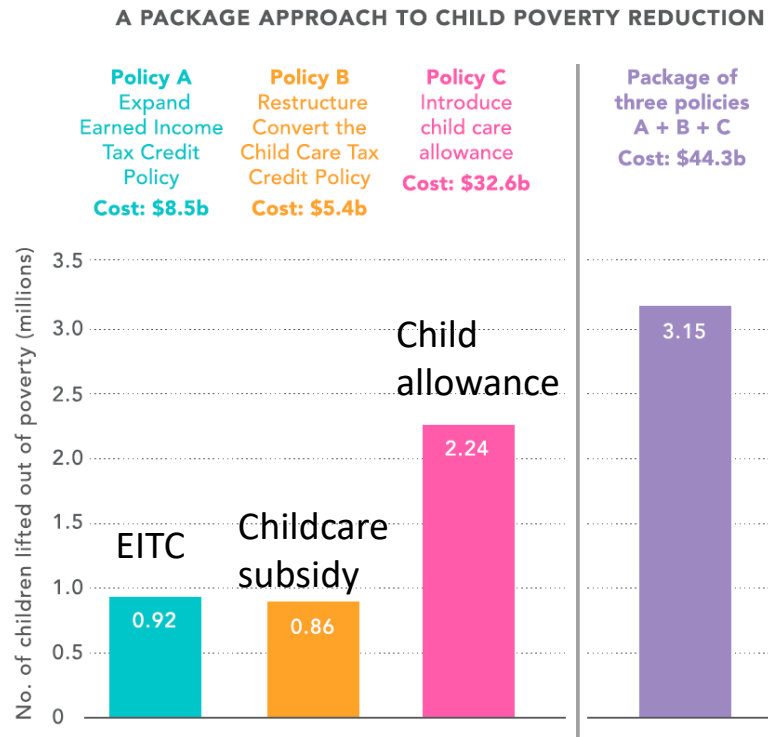


Fig. 1. Data are based on TRIM3 policy simulations commissioned by the *Roadmap* committee (Appendix F in ref. 1). Poverty is measured using the supplemental

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Fast forward to 2021

- Biden includes a one year child allowance in his 2021 American Rescue Plan
- \$3,600 per year per child < 6
- \$3,000 per year per child age 6-17
- Phased out at income above \$100,000 per year
- Monthly payments start July 2021
- Pretty close to universal



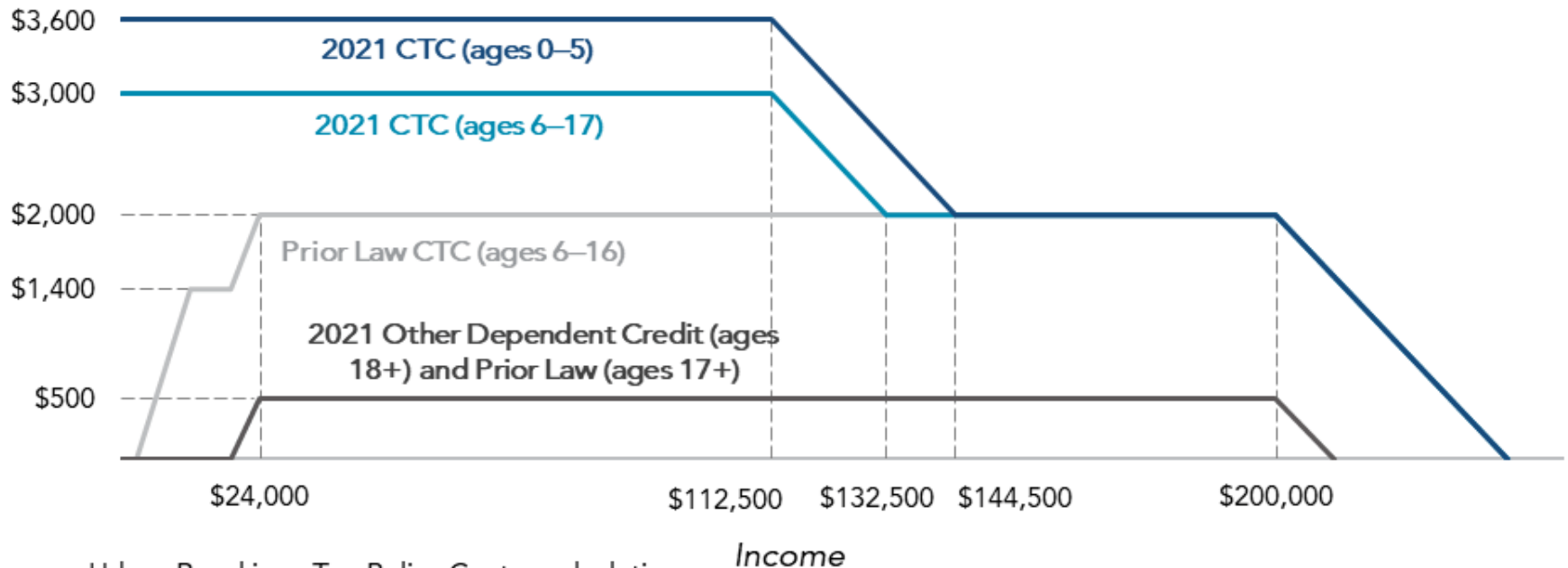
**AMERICAN RESCUE PLAN
ACT OF 2021**

FIGURE 1



American Rescue Plan Act Expands 2021 Child Tax Credit

Credit



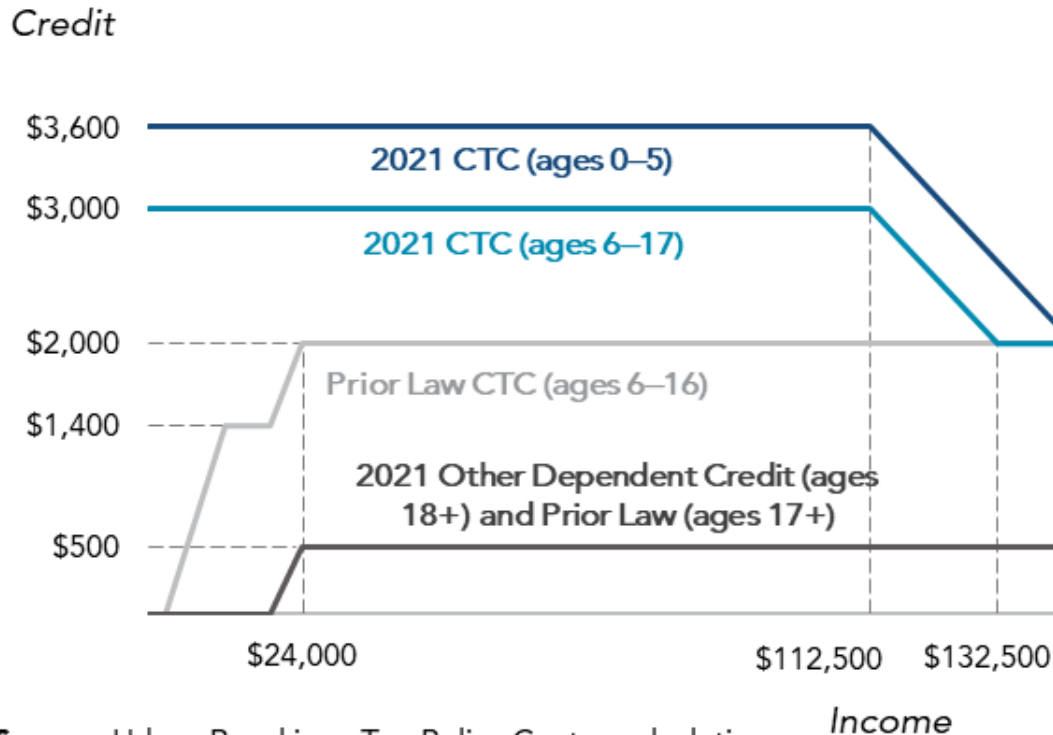
Source: Urban-Brookings Tax Policy Center calculations.

Note: CTC = Child Tax Credit. Proposal makes credit fully refundable; prior law limited the refundable portion to \$1,400. Illustration assumes all income comes from earnings, taxpayer is head of household, and child meets all tests to be a CTC-qualifying dependent. Credit for married couples begins first phase out at \$150,000 of income until credit reaches pre-2021 level; begins second phase out at \$400,000 of income. Under prior law, credit for other dependents applied to dependents ages 17 and up.

Note – illustrated here for a married couple. Phase out for single filers starts at \$112,000

FIGURE 1

American Rescue Plan Act Expands 2021 Credit



Source: Urban-Brookings Tax Policy Center calculations.

Note: CTC = Child Tax Credit. Proposal makes credit fully refundable; prior law is not. Illustration assumes all income comes from earnings, taxpayer is head of household, and child meets all tests to be a CTC-qualifying dependent. Credit for married couples begins first phase out at \$150,000 of income until credit reaches pre-2021 level; begins second phase out at \$400,000 of income. Under prior law, credit for other dependents applied to dependents ages 17 and up.

This policy is predicted to reduce child poverty by over 40 percent.

If made permanent this would be the most important policy addressing child poverty in US history.

Similar to what social security did for elderly poverty.

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2021 Child Allowance

- This is a pretty big deal
- This is the first unconditional cash assistance for families with children in US history
- Pretty close to universal
- Quite popular
- (to me) very surprising that we got here

The evolution of this work:

Economists and the Social Safety Net

- 1960s-1990s: focus on moral hazard, impacts on labor supply
- Mid 1990s: (Currie, Gruber) Expanded analyses to look at the benefits of the social safety net, initial emphasis on *health* benefits, extended to school based outcomes and others
- 2000s: Extend contemporaneous analyses to evaluate the long run effects of these policies
- 2010s: Turn the lens to children; link exposure to programs in childhood to economic and health outcomes in adulthood.

The Social Safety Net: Research Insights

- Evolution of research on the social safety net:
 1. protection vs distortion: How do these programs affect employment, poverty?
 2. quantifying benefits – short run impacts on health, etc
 3. quantifying benefits in the LR; do SSN programs affect a child's life trajectory?
- Are they efficient as a mechanism to improve the lives of the disadvantaged
- Do the programs help protect families against job loss, economic cycles and do they serve as “automatic stabilizers”

Summary: The safety net as an investment

- Increasing income and resources to low income families while children are young generates substantial benefits in the longer run, both private and public, that have only recently been quantified
- Particularly large returns to these investments when children are young
- It is time that we think about the social safety net as an investment in children

EXTRA SLIDES

Research Design – Event Study

- Use birth-county x birth-cohort variation in rollout:

$$Y_{cbt} = \theta_c + \delta_{s(c)b} + \psi_t + X_{cb}\beta + Z_{c60}b\eta + \sum_{a=-5}^{17} \pi_a 1[b - FS_c = a] + \epsilon_{cbt} \quad (1)$$

- for each cohort born in county c in state $s(c)$, and year b , and observed in survey year t

FS_c = year in which FS was first available in county c

a = event time, age at which FS was first introduced ($a = b - FS_c$)

θ_c = fixed effects for the birth county

$\delta_{s(c)b}$ = fixed effects for birth-state x birth-year

ψ_t = fixed effects for survey year

$Z_{c60}b$ = 1960 Census county controls, interacted with a linear birth cohort

X_{cb} = birth-county x birth-year and birth-cohort-varying controls

- The event-study coefficients π_a capture the effect of access to FS beginning at age a (relative to the omitted age, 10) on outcome, Y_{cbt} .
- Clustered by county and weighted using counts in cell

Research Design – Summary Exposure Model

(Hoynes et al 2016)

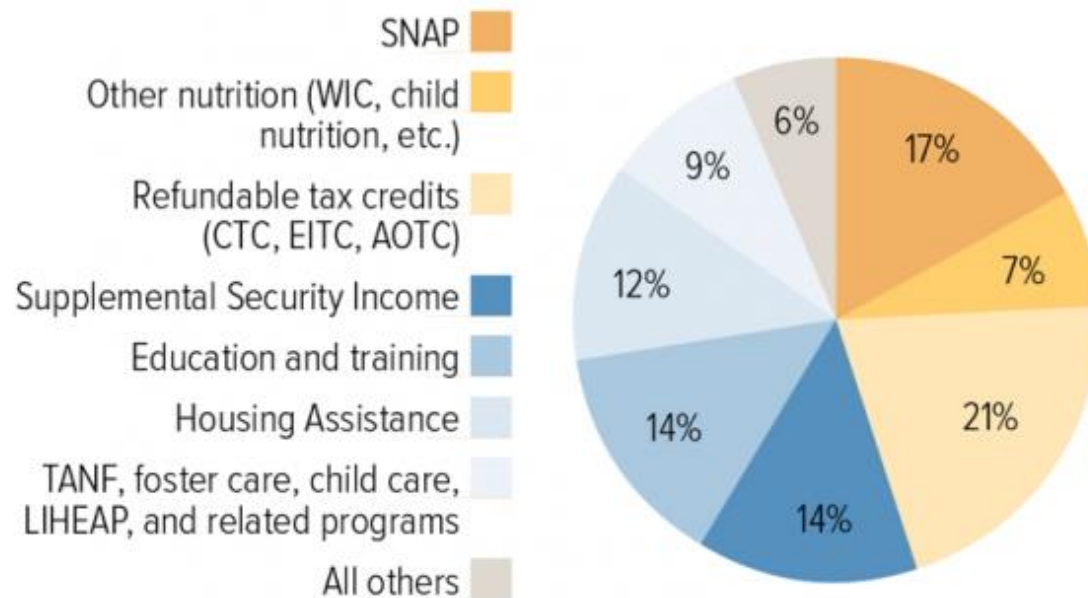
- Summary exposure measure uses share of time between conception and age 5

$$Y_{cbt} = \theta_c + \delta_{s(c)b} + \psi_t + X_{cb}\beta + Z_{c60}b\eta + \kappa ShareFS_{cb}^{IU-5} + v_{cbt} \quad (3)$$

- $ShareFS_{cb}^{IU-5}$ = share of months between conception and age 5 with FS exposure

Composition of spending

Expenditures in 2018 for Low-Income Programs Other Than Health Programs



SNAP = Supplemental Nutrition Assistance Program
WIC = Special Supplemental Nutrition Program for Women, Infants, and Children
CTC = Child Tax Credit
EITC = Earned Income Tax Credit
AOTC = American Opportunity Tax Credit
TANF = Temporary Assistance for Needy Families
LIHEAP = Low Income Home Energy Assistance Program
Source: Congressional Budget Office data