A Child Poverty Plan That Capitalizes on New Evidence

TIM SMEEDING

Some children are the blameless victims of poverty, while others are the lucky beneficiaries of affluence. We use the terms “blameless” or “lucky” because, as best we can tell, children do not choose their parents. It all depends on where the stork happens to drop them.

However, the case against child poverty goes beyond this now-standard point that poor children do not deserve their fate. There is also a strong consequentialist case against poverty. In many countries, both rich and poor, child poverty threatens future national income growth and stability. Societies with lower child poverty rates have higher rates of economic mobility and greater equality of opportunity, and thus better exploit their available talent. It follows that it is in everyone’s interest, not just that of poor children, to minimize child poverty.

Whatever the larger macroeconomic effects of poverty may be, it is clear that early-childhood poverty leads to major downstream problems for the children experiencing it. Poverty in early years can have long-lasting consequences for brain development, health status, school performance, labor market outcomes, and future well-being more generally. And family instability, which is frequently linked to poverty, has negative effects as well. When children are raised in households with constantly changing family members, housing, and income, they experience negative consequences across the life course.

The case for taking child poverty more seriously is accordingly strong. Why, then, doesn’t our country have a long-term plan to reduce poverty substantially? The purpose of this essay is to discuss what types of anti-poverty plans would be consistent with the social science evidence and also dramatically reduce child poverty.
The First Key Result: Money Matters
There is now ample causal evidence that increasing family income—providing “more money”—matters for the long-term outcomes of poor children, especially when that additional money is provided in the earliest years of life. For instance, when annual family income is increased by $3,000/year over the prenatal period up to age 5, children have a 17 percent earnings increase in their adulthood.4

These income effects appear to be mediated in part by cognitive development. When young children raised in low-income families are compared to those raised in middle-income families, there are substantial differences in brain surface area, an important indicator of cognitive ability.likewise, poverty also has large negative effects on the amount of gray matter, which in turn depresses brain development and reduces school readiness and academic achievement.5 These and related results suggest that getting more money into poor households with young children is the appropriate foundation of an aggressive anti-poverty plan. But how might that money be delivered? The social science evidence suggests that it would be cost-effective to ramp up child allowances, refundable tax credits, and earnings-enhancing policies.

Child allowances: Recent studies suggest that boosting a child’s family income by means of child allowances (or refundable tax credits) improves a host of long-term outcomes by expanding opportunity and increasing economic mobility in adulthood. Higher child allowances have substantial positive effects on maternal health, children’s physical and mental health, test scores, academic achievement, higher-education enrollment, and adult employment.6 Giving every child a universal child allowance of $250 per month, or $3,000 per year, would create a universal floor under family incomes, while offering all parents an equal base for raising their children. The allowance could be delivered monthly through the Social Security system to all parents, paid for largely by substituting the child allowance for current child tax credits and the personal child exemption, with a tax-back provision for high-income families. If we are really concerned about young children’s well-being, a slightly higher tax credit of, say, $300 per child per month for children 5 or under could also be engineered using this same delivery system. This allowance would eliminate extreme poverty for children, and reduce the current child poverty rate by almost 50 percent. The Earned Income Tax Credit (EITC) would be left largely as is to encourage work for low-income parents as well. It bears noting that there are several existing proposals for child allowances from both conservatives and liberals.7

Tax credits: The EITC and its complement, the refundable Child Tax Credit (CTC), are two other well-known programs that reduce child poverty by increasing income. The payoff to these programs is exceedingly well documented. Recent work suggests that a $1,000 increase in the EITC translates into a 7.3 percentage-point increase in the employment of single mothers.8 Moreover, the EITC reduces cardiovascular diseases and metabolic disorders as well as premature births and low birth weight.9 Tax credits also raise test scores for elementary- and middle-school children and, by virtue of these increases, lead to higher rates of college attendance. The likelihood of college attendance increases further if parents retain eligibility for the EITC when their kids go to four-year colleges.10 Moreover, when families receive a larger tax credit, their children have higher rates of high school completion and greater adult earnings.11

Increasing income from work: The foregoing income supplements should of course complement policies that increase the amount of income from work. For example, without child care subsidies, single mothers cannot afford to work. We need to foster greater labor market participation among single mothers while ensuring the appropriate balance of family and professional lives and access to high-quality child care.12 It goes without saying that any ramped-up program would have to be designed to maintain (i) incentives for self-support; (ii) protection against lack of income from work; and (iii) incentives to encourage absent parents, usually fathers, to support their children.

How might one rate recent developments in U.S. safety net policy against the foregoing standard? Although refundable tax credits (the CTC and the EITC) were expanded by President Barack Obama in the wake of the Great Recession,13 several states have since reduced their EITCs instead of expanding them to cover childless adults. Legislation to extend the EITC and CTC expansions that President Obama enacted after the Great Recession is now law.14 But absent some unforeseen development, a major ramp-up in cash transfers seems unlikely to occur. Although the evidence is clear that such a ramp-up would have a substantial beneficial effect, there is at this point no clear pathway that allows us to exploit that evidence under current political conditions, unless Congress and the administration come to agree that the child allowance would be a valuable tool to reduce child poverty.15

The Second Key Result: Place Matters Too
The evidence is also clear that children are harmed not just by growing up in poor families, but by growing up in poor neighborhoods.16 The bad news in this regard is that poor children are increasingly finding themselves in poor neighborhoods; from 1980 to 2010, residential economic segregation grew, while racial segregation changed very little.17 The effects of place would also appear to be color-blind; there’s a high cost to growing up in poor neighborhoods for both middle-income and poor white children as well as black children.18

The contrast between high-income and low-income neighborhoods is stark. In low-income communities, neighborhood amenities (e.g., schools, parks) are poorly funded, and there are high rates of crime, unemployment, single parenthood, and multiple-partner fertility.19 In high-income neighborhoods, there are clean parks and play spaces, new schools and child care centers, readily available high-quality health care, and little crime. These amenities are “purchased” by parents who pay higher housing
and property tax prices to segregate themselves and their families. This purchase is of course partly subsidized by our federal tax policies.21

Why does place matter? Although the effects of place are clear, we know less about the pathways through which those effects are exerted. But the evidence is accumulating and suggests that differences in school quality, exposure to community violence, and the physical environment (e.g., air pollution, noise, lead) affect academic trajectories, child cognitive development, and later economic outcomes.23

The total effects of place, however they may be generated, are large. A recent study concludes that “neighborhood effects are substantial, especially for children in low-income families. The U.S. county in which a child grows up explains nearly half as much of the variation in his/her earnings as his/her parents’ incomes.”24

What is to be done? The poverty-generating effects of place can be reduced by moving poor children to better neighborhoods. Recent research suggests that moving to a lower-poverty neighborhood significantly improves college attendance rates and earnings for children who were young (below age 13) when their families moved. These children grow up to live in better neighborhoods as adults and are less likely to become single parents. The effects are substantial: Children who move to a lower-poverty area when they are younger than 13 years old have an annual income that is 31 percent higher (in their mid-20s) than that of a control group, and the longer the exposure to good neighborhoods, the larger the gain. In other words, children are better off moving when they are younger, as the gains from moving decline as children get older, a result that is consistent with recent evidence that the duration of exposure to a better environment matters.25

A Related Plan

Is my proposal too radical? Hardly. It mainly builds incrementally on existing proposals.

A recent proposal by the Children’s Defense Fund (CDF) is a case in point.26 The CDF plan, which would cost only $777 billion per year, would reduce child poverty by 60 percent—and deep poverty (i.e., poverty below half the poverty line) by even more. Although the proposal does not include a child allowance, it is otherwise very comprehensive. It builds principally on the new evidence, as reviewed above, that cash and place matter. It also builds exclusively on programs that work, such as refundable tax credits (e.g., CTC/EITC), while also encouraging more work and self-responsibility, greater neighborhood mobility, and greater responsiveness of absent fathers to their child support obligations. The CDF plan bears a striking resemblance to the AEI-Brookings working group consensus report on reducing poverty and restoring opportunity.26

The CDF plan increases housing vouchers for relocation of poor children to better neighborhoods. These have been shown to be cost-effective. As argued above, when families with young children use vouchers to move from high-poverty housing projects to low-poverty neighborhoods, there is reduced intergenerational persistence of poverty and thus positive returns for taxpayers.27

Three types of work aids are also added to improve self-sufficiency. The CDF plan would make work available to unemployed parents by offering “transitional” jobs of last resort to adults who are unemployed or underemployed (via private and nonprofit sector job subsidies). It would make work accessible by providing subsidized child care to low-income parents.28 And it would make work pay by raising the minimum wage.

The CDF plan will coordinate well with local and national increases in the minimum wage. While an increase in the minimum wage to $10/hour may reduce the number of jobs by approximately 500,000, this effect would be offset by the 16.5 million workers, most of them in lower- and middle-income families, who would find their paychecks larger and their need for public benefits to enhance these earnings smaller.29

U.S. Exceptionalism

The CDF program is both reasonable and affordable, as is the child allowance. The CDF plan stresses market work and ties benefits to work, which fits with American values as espoused in the AEI-Brookings consensus report. It addresses two of the key lessons we’ve learned during the last decade of poverty research: that cash matters and that place matters. It builds a second War on Poverty explicitly on these two lessons. And, as with the child allowance, it relies on benefits that, for the most part, are consistent with the Edin-Shaefer “litmus test” that the poor shouldn’t have to sacrifice their dignity when they draw on safety-net programs.

It bears noting that, were the CDF or child allowance program adopted, it would push the currently very “exceptional” U.S. policy somewhat closer to the rich-country norm. Other countries that, like the United States, once ran very weak poverty programs have succeeded in reducing child poverty through deliberate public policy to maintain incomes in families with children, to invest in their future, and to provide child allowances. This result is shown in Figure 1.30 As this figure also shows, cutting back on benefits can produce the opposite result. The Swedish child poverty rate, once very low, has been driven up by a national minimum income benefit freeze and by increases in single-parent families. It is now almost as high as the child poverty rate for the United Kingdom.31

The United States is a clear and constant outlier in the child poverty league. We do less to help children and their families than any of the rich countries in Figure 1. It is also clear that policy matters: As the figure shows, our policy successfully lowered child poverty rates during the Great Recession, a reduction that is now threatened as poverty-relief programs are reduced and cut back.

The United States has just experienced a presidential election in which issues of poverty and inequality, as well as a lack
of equality of opportunity and mobility, were major campaign issues. The least costly solution, given the Republican election victory, seems to be to help those at the bottom make better lives for themselves. But of course the United States has not had a history of choosing the least costly solution. Because poverty programming has become so politicized, we instead have a long history of opting for the more expensive route, unfortunately to the detriment of children born into difficult neighborhood circumstances. If nations are judged by the way they treat their children, the United States is currently failing the test. We can make our country great again by reducing child poverty.

Tim Smeeding is the Lee Rainwater Distinguished Professor of Public Affairs and Economics at the University of Wisconsin.

Additional Resources


Notes


15. West et al., 2015.


