A Universal Child Allowance to Reduce Poverty and Improve Child Development
A plan to reduce poverty and income instability among children in the United States

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US Partnership on Mobility from Poverty
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Overview

I. A universal child allowance: A proposal to reduce poverty and income instability among children in the United States

II. A randomized experiment to test the impact of an unconditional cash transfer in the first three years of life: Proposal and pilot study results
Research Team, Child Allowance

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- Kathryn Edin, Johns Hopkins University
- Irwin Garfinkel, Columbia University
- David Harris, Children’s Research and Education Institute
- Timothy Smeeding, University of Wisconsin Madison
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- Greg J. Duncan, University of California Irvine
- Kimberly Noble, Columbia University
- Katherine Magnuson, University of Wisconsin
- Lisa Gennetian, New York University
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Child poverty in the U.S. remains stubbornly high

We spend $96 billion on cash support for children -- in the form of the Federal Income Tax child exemption and Child Tax Credit. A family with two children receives more than $4,000 per year from these tax provisions if their annual income is around $100,000 and more than $3,000 if their income is $250,000 or higher.

Families with no or very low taxable income receive nothing.
A stable source of income could reduce material hardship and improve child health and development.

Proposals currently considered include reforming the Child Tax Credit – making it fully refundable e.g. (Center for Budget and Policy Priorities) so it phases in earlier, reaches lower-income families.

We propose a universal, monthly child allowance to provide all children with a dependable cash income floor including the poorest families in America.

Present data that focuses on very young children as a particularly important group to consider for such income support.
The U.S. has increased its financial commitment to fighting poverty substantially over the past half century through refundable tax credits and in-kind aid.

More aid is now directed to low-income working families, when they are working.

Less aid to families who are unable to maintain stable employment.

One quarter of TANF dollars goes toward basic assistance.

Other uses include child care subsidies and state EITCs. Very little is spent on helping recipients find work.
Special thanks to Elaine Maag for estimates of the total expense of the child tax exemption and child tax credit.
Figure 1: Federal Expenditures on Major Cash and Near-Cash Programs for Children, 2014 (billions of 2014 dollars)

- Child tax exemption and Child Tax Credit: 37.8 (Exemption), 57.8 (Credit), 95.6
- EITC (Earned Income Tax Credit): 79.2
- TANF: 12.2
- SSI: 11.3
- SNAP (food stamps): 33.4
- Section-8 low-income housing assistance: 7.3

Data on child tax exemption and Child Tax Credit come from the Center for Tax Policy. Other data are adapted from Julia Isaacs, Sara Edelstein, Heather Hahn, Ellen Steele & C. Eugene Steuerle KIDS’SHARE2015: Report on Federal Expenditures on Children in 2014 and Future Projections, Urban Institute, 2015. Data are based on outlays, rather than appropriated or authorized levels. Child Tax Credit and Earned Income Tax Credit amounts include both tax expenditure and refundable portions of the credits. Child Tax Credit amount includes the Additional Child Tax Credit.
Figure 2 Child income poverty rates, 2012a

Share (%) of children (0-17) that live in households with an equivalised post-tax and transfer income of less than 50 percent of the national annual median equivalised post-tax and transfer household income
Countries with some form of a child allowance: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Luxembourg, the Netherlands, Norway, Sweden, Switzerland and the U.K.
WHY A MONTHLY CHILD ALLOWANCE?

- Increased income may allow parents to increase investments in their children, improving child health and development.
- Increased income may reduce family and environmental stress, which can improve child health and development.
- Poverty can compromise parents’ cognitive “bandwidth,” with detrimental consequences for cognitive tasks and decision-making.
- Emerging evidence finds that families well up the economic ladder face substantial intra-year volatility in income and expenses.
- Conceptual linkages between income and the child development are strongly suggestive that a form of dependable monthly income support would have substantial benefits.
BASING POLICY ON PRINCIPLES

CONSENSUS

- The child allowance should be universal, recognizing that all families incur substantial expenses when raising children.
- The allowance should be accessible and of sufficient frequency to meet short-term cash needs. We propose monthly distribution.
- Payments should be adequate for a family to address basic needs of children—we recommend $250/month.

IMPORTANT CONSIDERATIONS

- Families with younger children should be eligible for larger payments.
- Per-child payments should decline with additional children.
Three proposed versions of a child allowance

**Simple:** Monthly payments of $250 per child per month for all children under age 18.

**Tiered:** Monthly payments of $300 per child under age 6, $250 per child age 6-17.

**Tiered and Equivalized:** Monthly payments of $300 for the first child under age 6 and $250 for the first child age 6-17, with a reduction in these benefit levels as the number of children in the household increases.

In each case, payments would be taxed at the marginal tax rate of the unit claiming the child.
POVERTY EFFECTS (CPS ASEC)

Figure 3: Child Poverty Falls Dramatically with a Universal Child Allowance

- Poverty
- Deep Poverty
- Extreme Poverty

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Poverty</th>
<th>Deep Poverty</th>
<th>Extreme Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child SPM, No CA</td>
<td>16.7%</td>
<td>4.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Simple, $250/mo. CA</td>
<td>9.6%</td>
<td>2.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Tiered $250/$300/mo. CA</td>
<td>9.1%</td>
<td>2.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Tiered and Equivalized</td>
<td>10.9%</td>
<td>2.5%</td>
<td>0.1%</td>
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</table>
Table 1: Cost Estimates of Universal Child Allowance

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<tr>
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<th>Poverty</th>
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<tbody>
<tr>
<td>Child SPM, No CA</td>
<td>18.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Simple, $250/mo. CA</td>
<td>10.6%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Tiered $250/$300/mo. CA</td>
<td>9.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Tiered and Equivalized</td>
<td>11.6%</td>
<td>2.4%</td>
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Table 1: Cost Estimates of Universal Child Allowance Proposals (in billions)

<table>
<thead>
<tr>
<th></th>
<th>Total Direct Cost</th>
<th>Cost Savings*</th>
<th>Net Cost of CA:</th>
</tr>
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<tbody>
<tr>
<td>Universal $250/mo. CA</td>
<td>$192</td>
<td>$96</td>
<td>$96</td>
</tr>
<tr>
<td>Tiered $250/$300/mo. CA</td>
<td>$204</td>
<td>$96</td>
<td>$108</td>
</tr>
<tr>
<td>Tiered and equivalized CA</td>
<td>$165</td>
<td>$96</td>
<td>$69</td>
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* Cost savings are the estimated results of eliminating the CTC, ACTC, and also the child exemption under federal tax law. Estimates provided by Elaine Maag at the Urban Institute’s Tax Policy Center, 2016.

TPC estimates that the net cost of the Lee-Rubio Refundable CTC expansion would be $130 in 2015

II. A Randomized Experiment to Test the Impact of Cash Income in the First Three Years of Life
Random assignment study of the direct effect of income

Focused on first years of life

- costs of raising children largely borne by families
- subsidies for basic baby needs minimal
- children’s development is most sensitive to environmental influence

Although evidence base strongly suggests benefits of income support for young children, there is a critical gap in causal, experimental evidence for the very youngest children, the group for whom parents share a particularly high burden of costs.
Research questions

Is there a causal effect of income in the first 3 years of life?

- What is the magnitude during early childhood—a period of the most rapid and foundational growth in brain architecture?

- What are the (parent well being and family functioning) mechanisms by which income may impact the *earliest* years of child development?

- Does such an effect exist on biological and neurological processes? Is this a necessary ingredient to more enduring positive effects on cognitive development through childhood?
# First RCT of income support for poor families with infants and toddlers

<table>
<thead>
<tr>
<th>National Experiment</th>
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<tbody>
<tr>
<td><strong>Sample</strong></td>
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<tr>
<td><strong>Intervention</strong></td>
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<tr>
<td><strong>Control</strong></td>
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<tr>
<td><strong>Payment</strong></td>
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<tr>
<td><strong>Data Collection</strong></td>
</tr>
<tr>
<td><strong>Outcomes of interest</strong></td>
</tr>
</tbody>
</table>
Predictable unconditional cash payments

In the context of CCTs and comparable cash transfer schemes where payment is often uncertain

- High frequency of intra-year income dips at the lowest end of the income spectrum, nearly double that of middle-income households with children

- Qualitative portraits on the challenges of meeting monthly consumption needs, juggling

- Disbursed on a debit card with a text reminder on the day of the child’s birth date, creating another source of random variation within the month
Developmental Theory of change

Higher Income

Investment pathway

Stress pathway

Child cognitive, socio-emotional, and brain development
Theories of Change

Enrichment pathways model

Immediate impacts
- Better able to meet basic needs
- Higher quality non-parental care
- Improved housing & neighborhood
- More parental time with child

Secondary impacts on parents and family
- PARENTS: Less stress
- Better mental health
- More Cognitive Bandwidth
  - Higher quality parenting (responsive & warmth)
  - More stimulating home activities & environment
  - More stimulating non-parental care environment

Child outcomes
- Greater amount and complexity of linguistic input
- More cognitive stimulating interactions
  - Better Language Development
  - Higher IQ (or pre-academic skills)
Theories of Change

Stress pathways model

**Immediate impacts**
- Better able to meet basic needs
- Higher quality non-parental care
- Improved housing & neighborhood
- More parental time with child

**Secondary impacts on parents and family stress**
- **PARENTS:**
  - Less stress
  - Better mental health
  - More Cognitive Bandwidth
- Higher quality parenting (responsive & warmth)
- Less family chaos, more stability
- More stable & and higher quality non-parental care
- Better attendance at preventive doctor and dental visits

**Child outcomes**
- Better executive functioning
- Better socio-emotional processing
- Better physical health (less obesity, better overall health ranking)
<table>
<thead>
<tr>
<th>Data Collection</th>
<th>Birth</th>
<th>Age 1 Phone interview</th>
<th>Age 2 Home visit</th>
<th>Age 3 Lab visit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household economic behavior</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Housing and neighborhoods</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Parental employment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Nonparental care</td>
<td></td>
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<td></td>
<td>X</td>
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<tr>
<td>Parenting</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Maternal relationships</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Maternal physical and mental health</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Home environment</td>
<td></td>
<td></td>
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<td>X</td>
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<tr>
<td>Complexity of linguistic input (videotaped interaction)</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>Maternal working memory</td>
<td></td>
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<td></td>
<td>X</td>
</tr>
<tr>
<td>CHILD OUTCOMES: Language, memory, executive functions,</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
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</tbody>
</table>
## Pilot Experiment

### NYC Pilot

<table>
<thead>
<tr>
<th>Sample</th>
<th>30 income eligible mothers in NYC (Columbia University Medical Center), recruited in summer 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intervention</td>
<td>$100/month for 12 months ($1200 total)</td>
</tr>
<tr>
<td>Control</td>
<td>$20/month for 12 months ($240 total)</td>
</tr>
<tr>
<td>Payment</td>
<td>Monthly reload on debit card</td>
</tr>
<tr>
<td>Data Collection</td>
<td>Birth, 6-9 months, 12 months</td>
</tr>
<tr>
<td>Outcomes of interest</td>
<td>Recruitment and retention rates; debit card activation, problems, and frequency/type of transactions; some parent outcomes; qualitative perceptions of finances, budgeting, card usefulness, etc.</td>
</tr>
</tbody>
</table>
NYC pilot: Baseline characteristics

- Average maternal age: 25.9 years

- Socioeconomic characteristics
  - Average maternal education: 12.3 years
  - Average family income: $22,311

- Racial/ethnic characteristics
  - 47% Black/African American, 13% White, 40% other or declined to answer
  - 70% Hispanic/Latina, 30% Not Hispanic/Latina
Did random assignment work?

Reassuringly random (non statistically significant) differences at baseline between the two groups

- Gestational age: .25
- Child birthweight: -.29
- Income at baseline: -.25
- Mother’s education: .41
- Mother’s age: .25
Retention rates at 12 months

- Intervention group (N=15):
  - Completed: 12
  - 2 moved out of state; 1 lost contact

- Control group (N=15):
  - Completed: 13
  - 1 moved out of state
  - 1 moved within state but lost contact

~83% ERR, with very light touch retention strategy
Debit card use

- All participants used card within one month of recruitment/activation
- Funds are typically spent within two weeks
- First time use of debit card for 21% of participants
- Few documented problems, of the 1,112 transactions:
  - 27 declines due to insufficient funds
  - 6 PIN resets
  - 11 reports of stolen/lost card
  - 3 login; 3 card locked
  - 2 fraudulent charges
Debit card: Patterns of weekly transactions
Debit card:
1112 transactions by type over 12 months
Preliminary: Experimental impacts from the pilot study
Standardized differences between families receiving $100 vs. $20/month (n=28)

Consistent family process advantages for the $100/month households
Qualitative interviews: Even in small amounts, the money makes a big difference

“The money from the card really helped me out, it really, really helped me out, especially [one] month that we didn’t have the food stamps; we didn’t have anything at all.”

“Anything that I need, I just use it on. Or sometimes if I run out of my food stamps I’ll use it”

“I was able to put at least some of [it] toward [baby’s] expenses, which are huge, especially these first few years...because there’s so many things at once.”
Even in small amounts, savings is in the picture

Now it's just like I try to forget about it so it's there just for an emergency, 'cause you never know when you're just stuck, stranded somewhere with no money.”

“Well like that always comes right around my Payday or before. Like before you know how you – it's like the day before or two days before payday, between paydays it's a long stretch. Right now like I need to hold some money in that – I don't have to borrow from nobody I have the $20.00 here, so it always came in handy. That's what I like about it.”
Through the child tax exemption and child tax credit, our nation recognizes the societal benefit to supporting parents in raising children.

But our biggest policies exclude the lowest (and highest) income families, and are not equitable.

Principles of stable cash income flow for all families, including those not receiving benefits from CTC and tax exemption – met by a universal child allowance.

It would complement our work-based safety net and would dramatically reduce poverty.

Strong rationale for higher levels of support in early childhood.
Acknowledgements

**Child Allowance Proposal:**
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