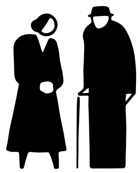
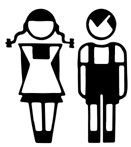
MATT BRUENIG

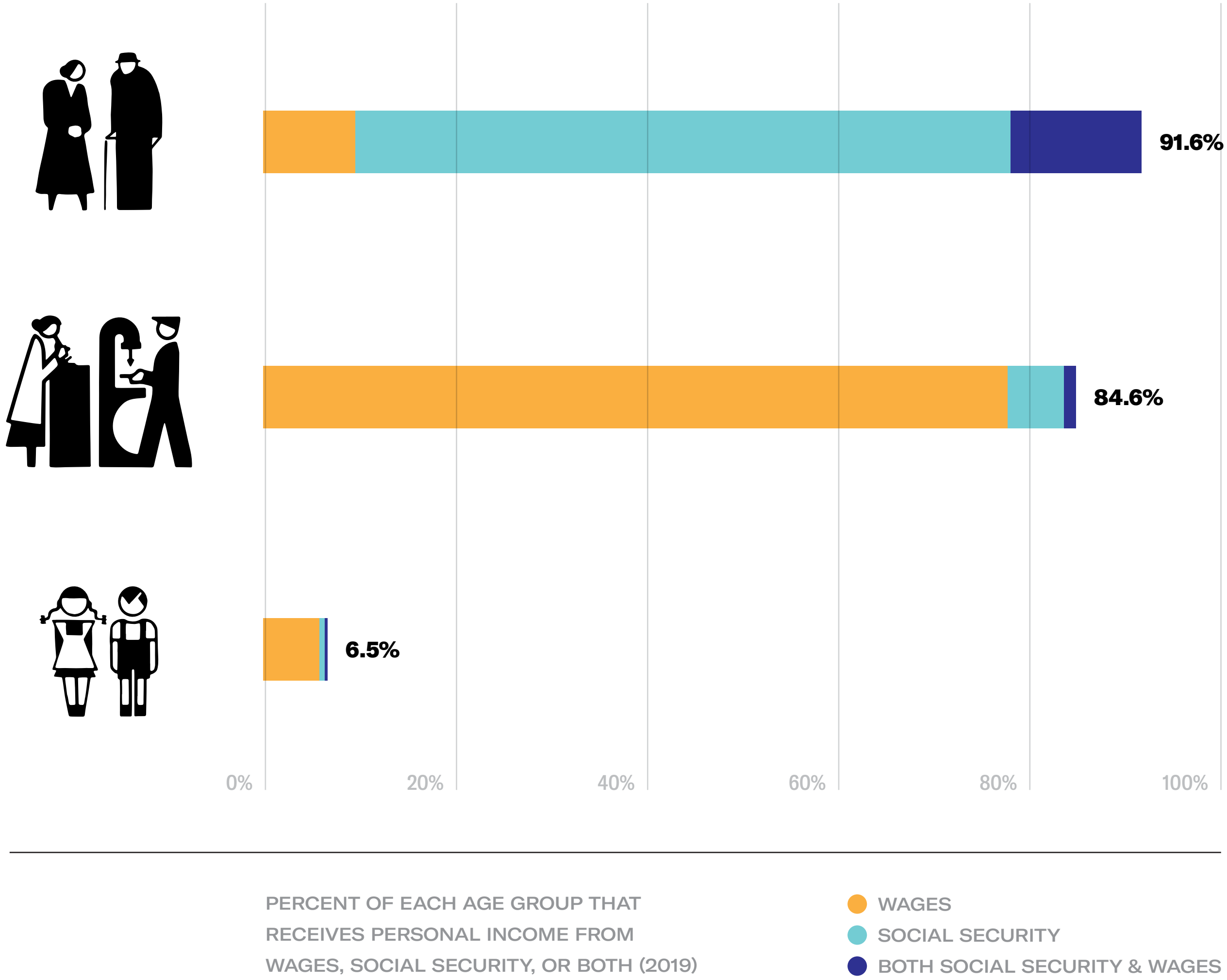
NOW IS THE TIME FOR AN AMERICAN CHILD BENEFIT

PEOPLE'S POLICY PROJECT





The population of America can be divided into three age groups. You have elderly people, ages 65 and over, who are mostly retired. You have children, ages 18 and below, who are mostly in school. And you have the adults in the middle who are mostly working.



The vast majority of working-age adults and elderly people receive regular cash payments from the nation’s two largest sources of cash income for non-wealthy people: wages and Social Security. But almost no children do.

Instead, direct income for children is mostly doled out once a year through a set of strange and duplicative tax credits called the **Earned Income Tax Credit** (EITC), the **Child Tax Credit** (CTC), and the **Additional Child Tax Credit** (ACTC). These child benefit programs, as well as the overall child benefit regime they produce, are riddled with serious problems:

1. They are designed to partially or entirely exclude the poorest 20 percent of children.

2. They are so complicated that over one in five people fail to apply for the benefits that they are legally entitled to.[1]

3. They are paid out once a year, making it difficult to incorporate the income into a monthly budget.

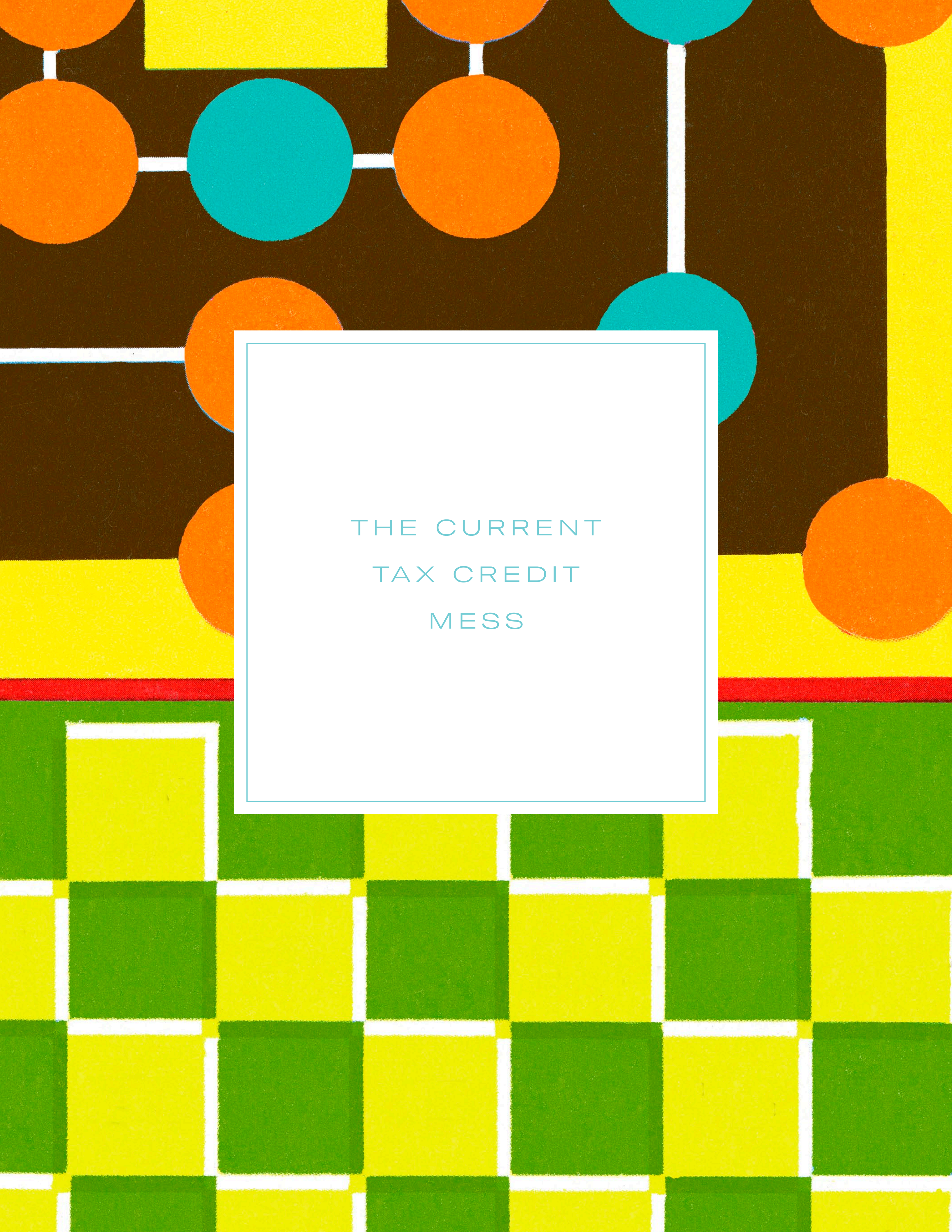
4. The benefit amounts are based on each family's financial situation from the prior year, which often does not reflect their current financial situation.

In this paper, I propose that the federal government eliminate these three tax credit programs and replace them with a $374 per month universal child benefit run by the Social Security Administration (SSA). Just as the SSA currently sends out checks to 50 million seniors each month, it should also send out checks to the parents of the nation's 77 million children.[2]

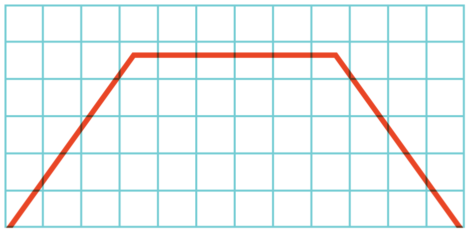
The intellectual movement for a program like this has been building over the last few years, but more recent developments have created an especially ripe environment for actually implementing this change.

The first development is that Americans just experienced a version of a child benefit when they received a $500 payment for every child in the middle of last year and then a $600 payment for every child a few months later. The idea of making those kinds of payments a permanent monthly fixture no longer requires a stretching of the imagination.

Second, there is now unified Democratic control of the federal government for the first time in 10 years. Democrats, and some Republicans, have already signaled that they are interested in taking up reforms to the EITC, CTC, and ACTC during the next two years.[3] And, as the old saying goes, if something is worth doing, it is worth doing right.



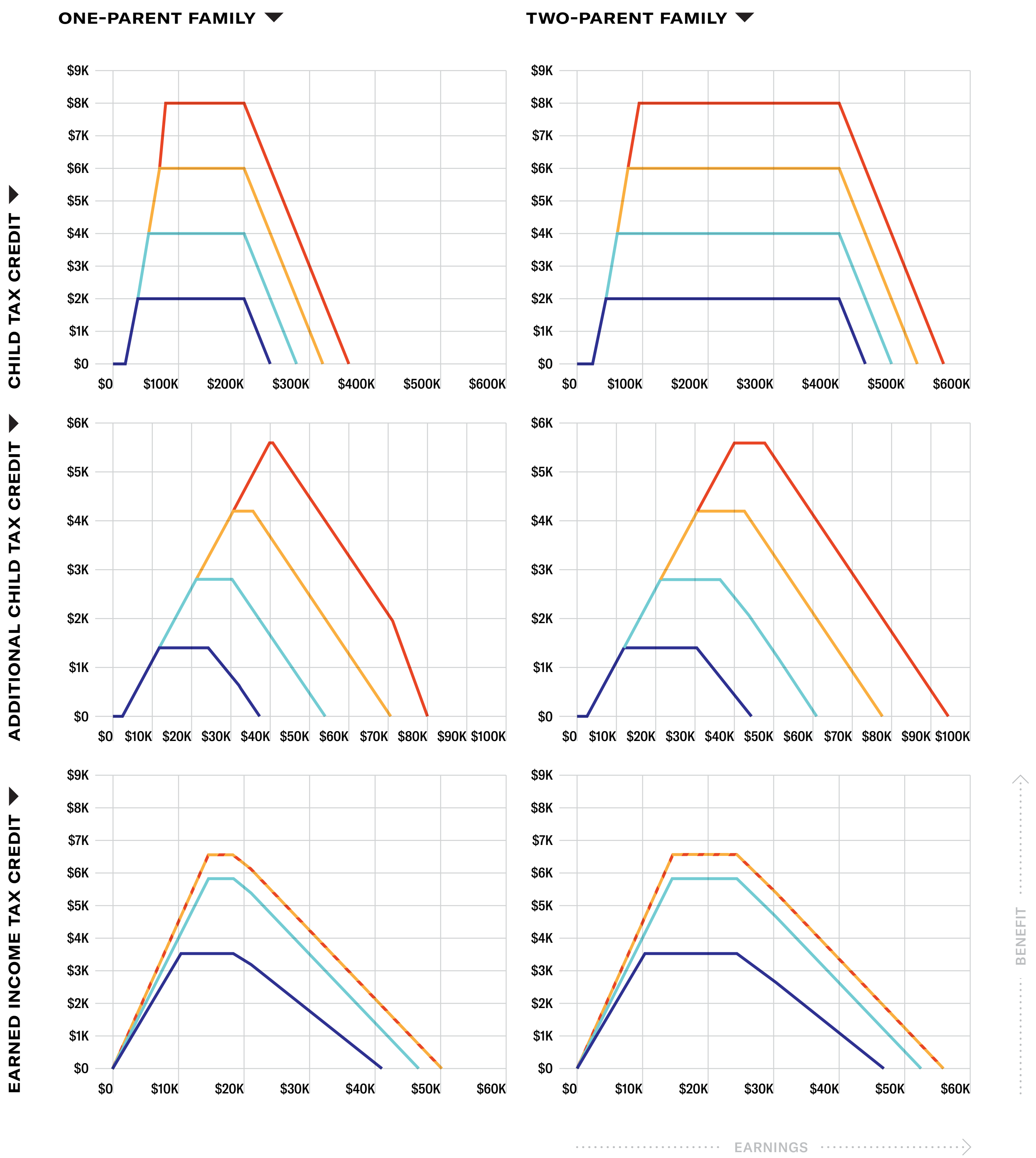
THE CURRENT TAX CREDIT MESS



The Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and Additional Child Tax Credit (ACTC) all do the exact same thing. They provide a child benefit that phases in based on a family's income and then phases out based on a family's income. This phase-in/phase-out pattern is sometimes called a **trapezoid benefit** because that is the shape it makes when depicted on a graph.

In the six graphs below, we can see how much money families are supposed to receive from each of these programs, based on their tax-filing status, earnings level, and number of children.[4]

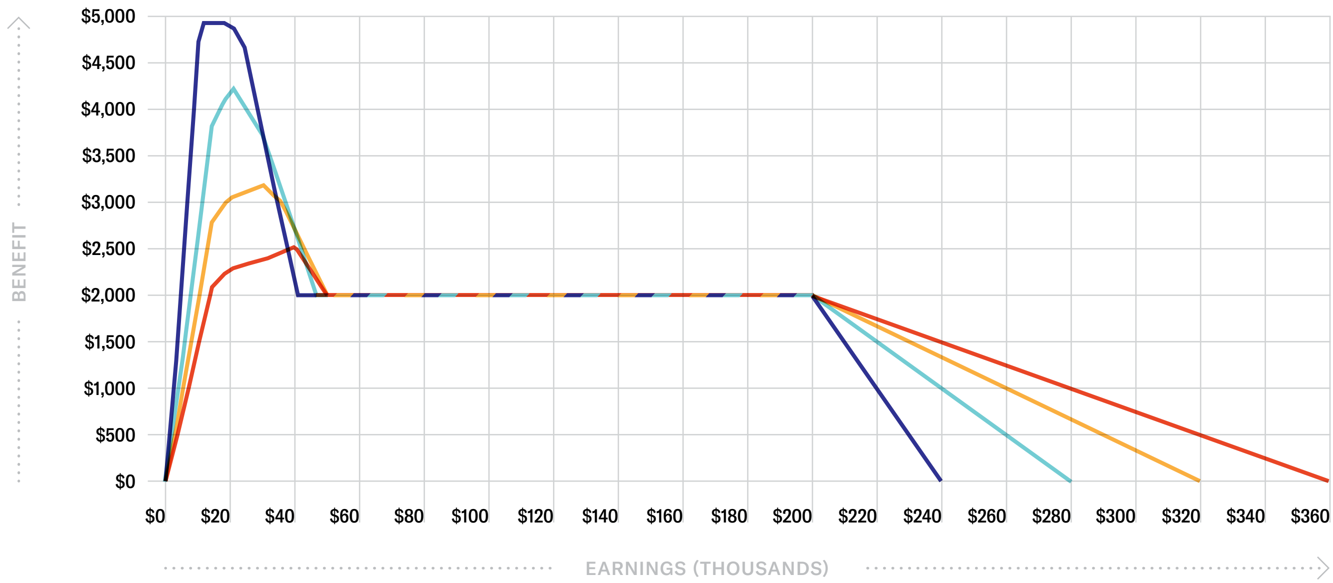
1 CHILD | 2 CHILDREN | 3 CHILDREN | 4 CHILDREN | 3 & 4 CHILDREN



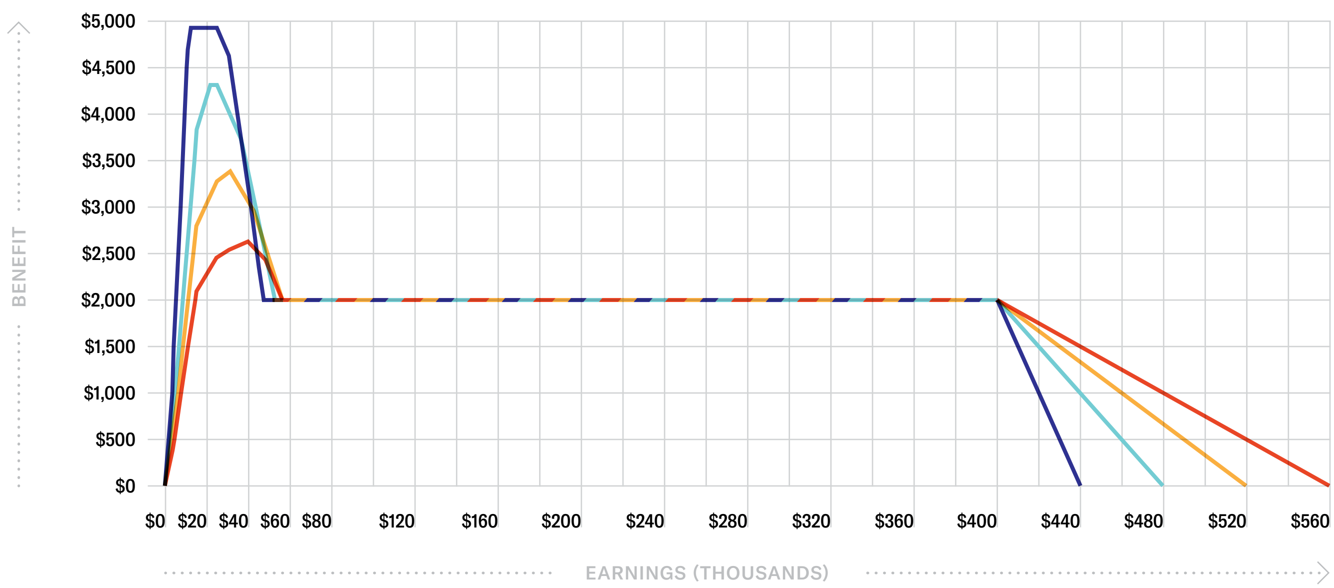
By adding these three benefits together and then dividing by the number of children in each family, you can see what the overall benefit scheme looks like. This is what I have done in the two graphs below.

1 CHILD   2 CHILDREN   3 CHILDREN   4 CHILDREN   ALL FAMILY SIZES

TAX CREDIT BENEFITS PER CHILD FOR ONE-PARENT FAMILY BY NUMBER OF CHILDREN (2019)



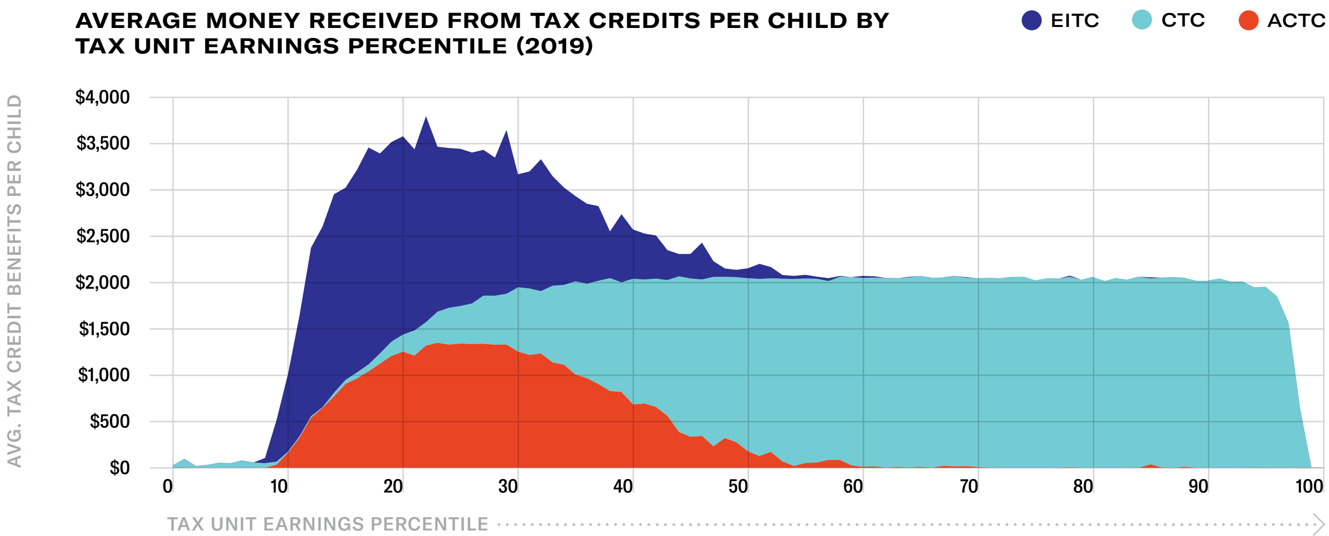
TAX CREDIT BENEFITS PER CHILD FOR TWO-PARENT FAMILY BY NUMBER OF CHILDREN (2019)



The graphs I have presented so far illustrate how much money a family at a particular earnings level should receive from these programs. But it does not illustrate how many kids actually live in families at each earnings level. This means that these graphs do not provide much insight into the overall distribution of these benefits across low-income, middle-income, and high-income families.

To see how these benefits are distributed overall, we can look at the next graph, which was produced using the Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS).[5] This graph shows how much money kids receive from these various programs, on average, at every percentile of the earnings distribution.

AVERAGE MONEY RECEIVED FROM TAX CREDITS PER CHILD BY TAX UNIT EARNINGS PERCENTILE (2019)

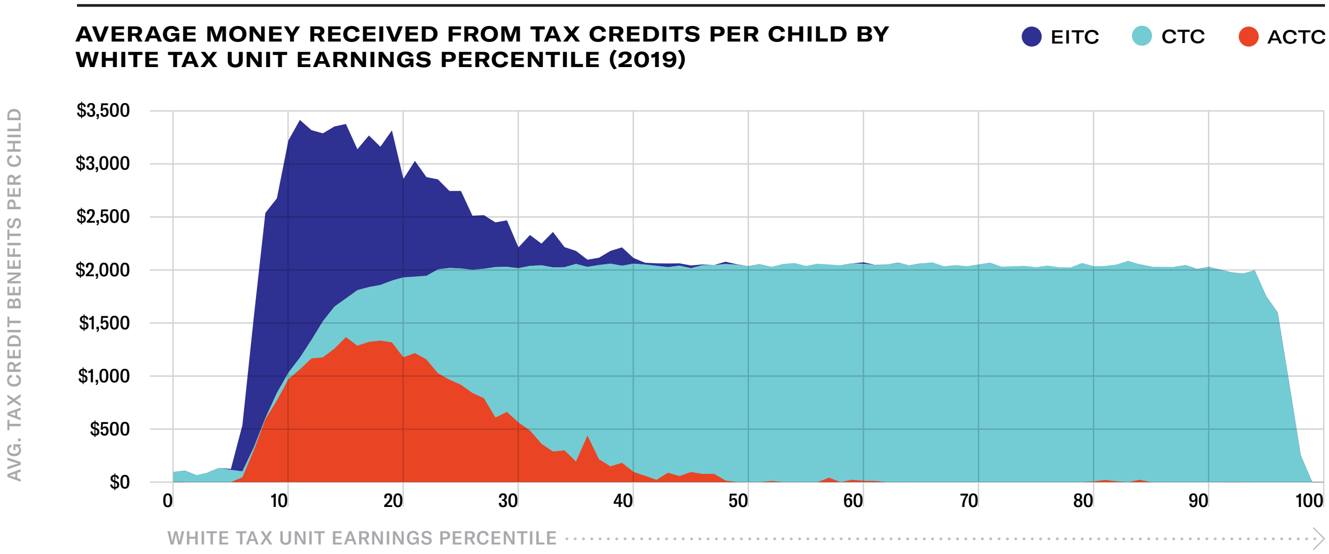


This analysis shows that the poorest 9 percent of children receive essentially nothing from these tax credit programs while the next poorest 11 percent of children receive less than the maximum amount. Overall then, the country's child benefit regime partially or entirely excludes the poorest fifth of American children.

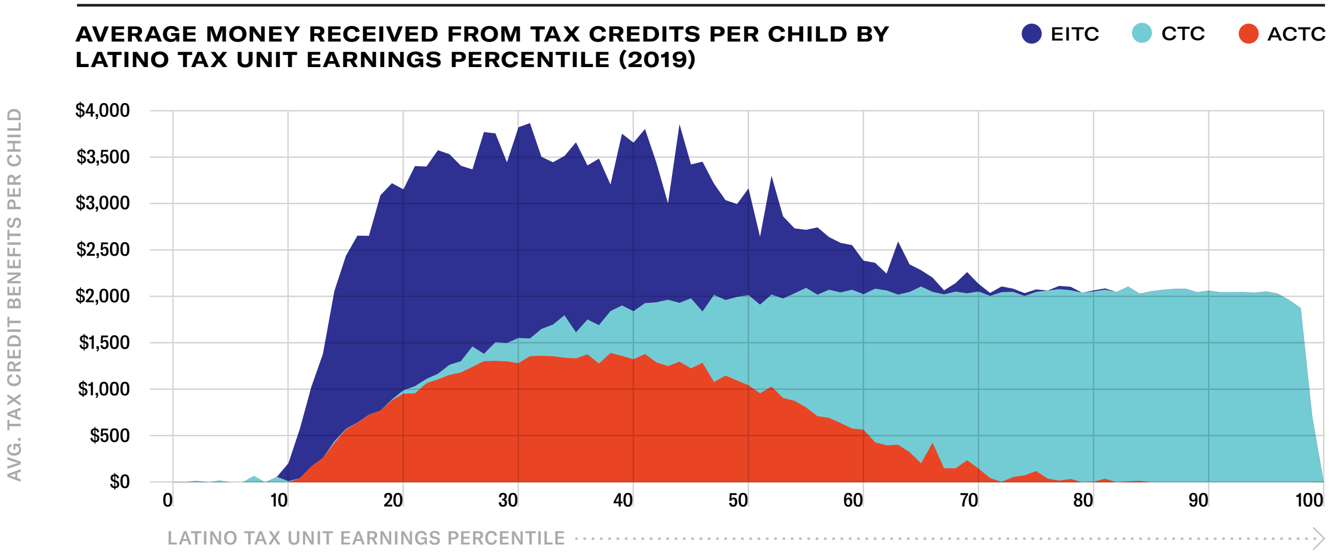
Remarkably, even though these tax credits phase out on those with very high incomes, the vast majority of rich people are still eligible for significant benefits. As a result of this, children at the 95th percentile of the earnings distribution receive 40 times as much money from these programs as children at the 5th percentile do.

We can reproduce this same graph for each racial group as well, which is what I do in the next three graphs. ➤

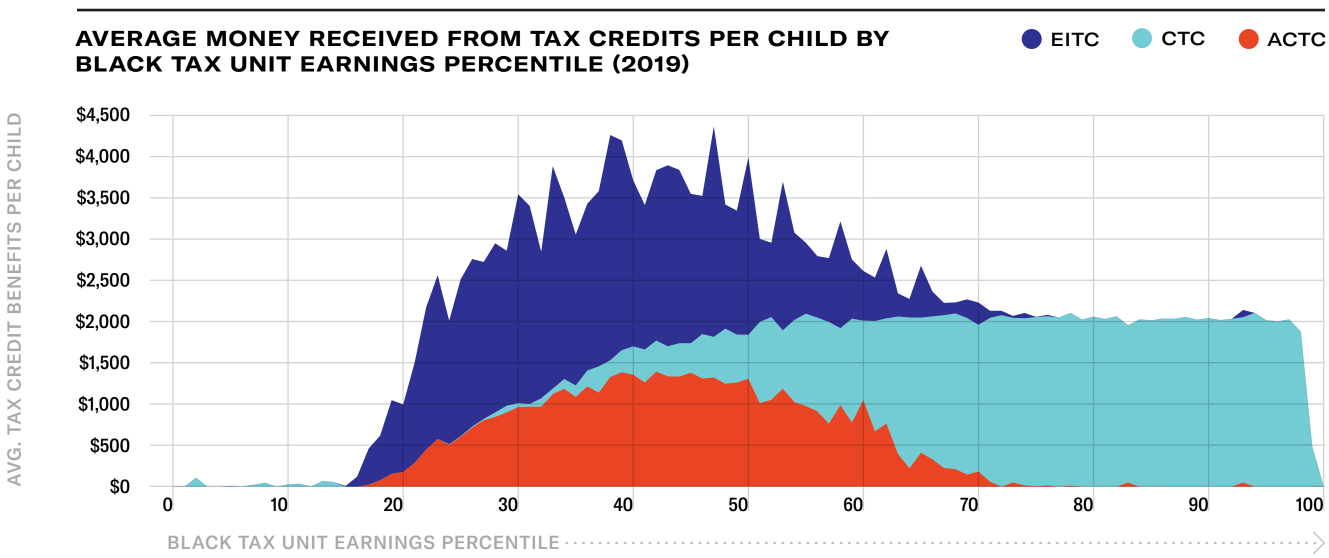
AVERAGE MONEY RECEIVED FROM TAX CREDITS PER CHILD BY WHITE TAX UNIT EARNINGS PERCENTILE (2019)



AVERAGE MONEY RECEIVED FROM TAX CREDITS PER CHILD BY LATINO TAX UNIT EARNINGS PERCENTILE (2019)



AVERAGE MONEY RECEIVED FROM TAX CREDITS PER CHILD BY BLACK TAX UNIT EARNINGS PERCENTILE (2019)



The poorest 7 percent of children in white tax units are entirely excluded from these benefits. For Latino children, it is the poorest 10 percent. For black children, it is the poorest 16 percent. Thus, as with any program designed to exclude the poor, the current tax credit regime disproportionately leaves out nonwhite people.

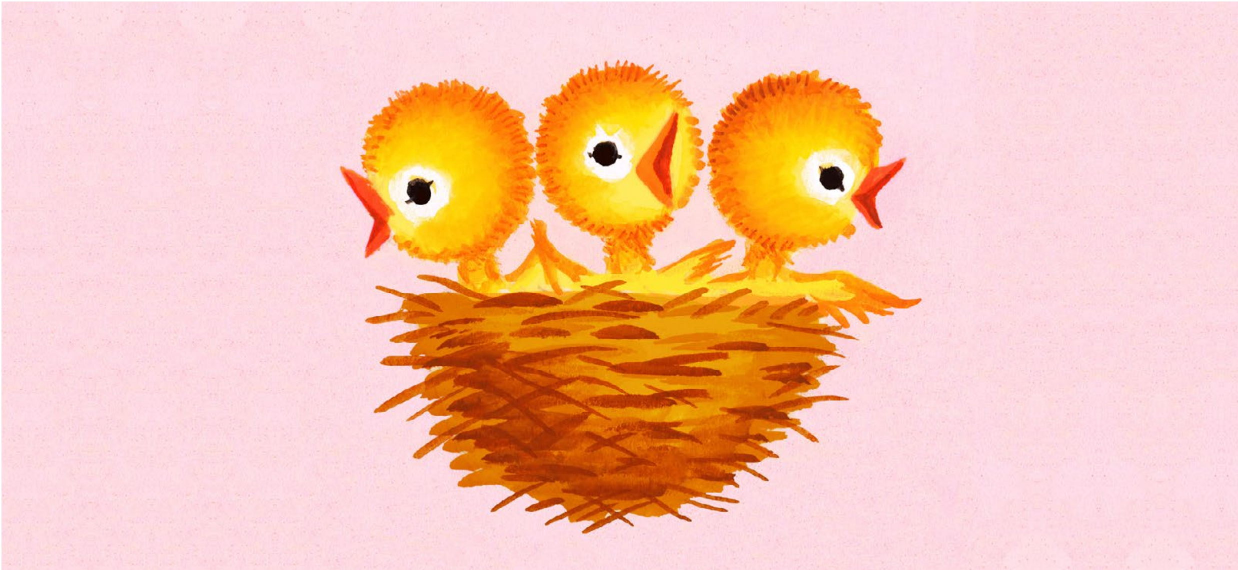
As bad as these tax credits look on paper, the real-life versions of them are even worse. The statistics I have presented so far assume that all eligible children receive the benefits that they are entitled to. But we know from IRS and Census data that this is not true.

According to the IRS, only 78 percent of eligible tax units receive the EITC benefits that they are entitled to.[6] And, according to the Census, nonparticipation in the EITC is skewed towards lower-income families with children.[7] Indeed, if you look at who actually gets the EITC based on IRS administrative data, rather than simply assuming everyone who is eligible gets it, you discover that conventional estimates of how much money the EITC provides to poor families are vastly overstated. For example, in 2014, the tax models tell us that the EITC lifted 4.8 million people over the federal poverty line while the actual IRS data tells us the real number was just 3.2 million people.[8] This means that most estimates of the EITC's impact—including the estimates used in the graphs above and the figures published frequently by the Census and other think tanks—overstate the EITC's antipoverty impact by *50 percent*.[9]

As far as I know, nobody has conducted similar research into the real-life versions of the CTC and ACTC, but it is hard to imagine why they would be any different than the EITC, seeing as the three programs are identical in all relevant respects. The low-income families who are failing to claim the EITC are also almost certainly failing to claim the CTC and the ACTC.

For those who follow the policy discourse on tax credits, these points may come as a bit of a surprise. The consensus of that discourse is that the EITC, CTC, and ACTC are some of the biggest and most effective antipoverty programs in the country. But this consensus has been built upon data that is, not only outright wrong, but also highly misleading.

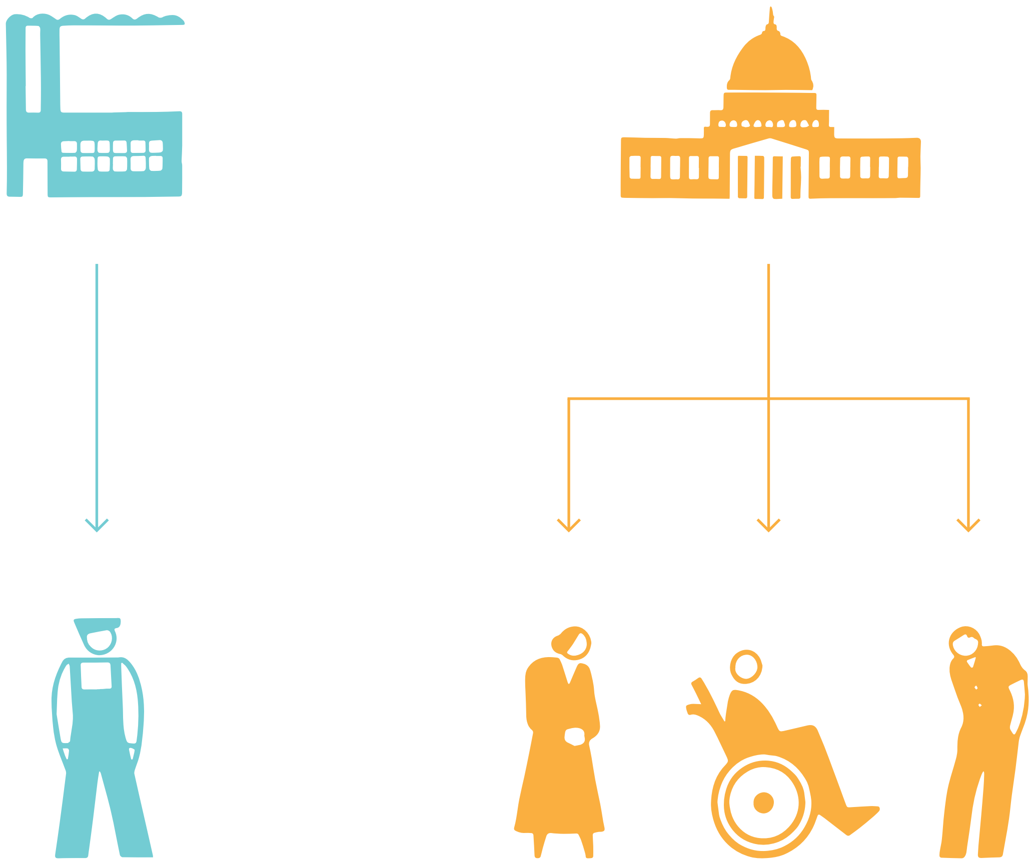
What's misleading about this consensus is that it is almost entirely based on a measure known as "headcount poverty." The way headcount poverty is calculated is by establishing a certain dollar amount known as the poverty line, adding up all the people who have incomes below that dollar amount, and then declaring that the resulting figure—e.g. 34 million people[10]—reflects the extent of poverty in the country.



The problem with the headcount poverty measure is that it does not distinguish between someone whose income is $1 below the poverty line and someone whose income is $10,000 below the poverty line. A program that provided $1 to the former person would count as reducing poverty while a program that provided $9,999 to the latter person would not. Given this dynamic, it is possible to game the headcount poverty measure by creating a program that sprinkles a modest amount of money on those with incomes just below the poverty line while giving nothing to those living in deep poverty. This kind of program would not provide much in the way of genuine poverty relief, but if it were implemented successfully, it would end up moving a significant number of people just below the poverty line just above it, thereby allowing advocates to claim the program is a huge success.

This sounds like a stupid game that nobody would seriously engage in, but it is exactly how our child tax benefits are designed to work. In the prior set of graphs, we can see this very clearly. The bottom 9 percent, i.e. those in deep poverty, are skipped almost entirely while a relatively modest sum of money is sprinkled on those much closer to the poverty line. This design, combined with ignoring the fact that a lot of the people who are eligible for the money do not actually receive it, has resulted in a policy consensus that says that these programs are majorly beneficial to the poor when in reality they are not.

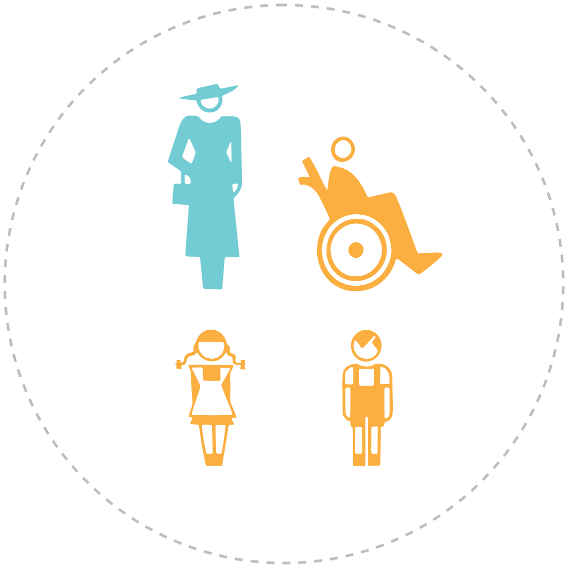
THE WAY FORWARD



When thinking about how to create a good child benefit regime, it helps to have a coherent theory of what child benefits are trying to achieve. And to have a coherent theory of what child benefits are trying to achieve, it helps to have a coherent theory of what the welfare state is trying to achieve.

One of the main things that welfare states try to do is provide income to categories of people who are not currently able to work and therefore receive no income from the labor market. Thus, we provide an old-age pension to the elderly, a disability benefit to the disabled, and unemployment insurance to the unemployed. Notably these benefits are provided to people due to their individual inability to acquire labor income without regard to the income that is earned by other family members.

FAMILY 1



FAMILY 2

Providing income to nonworkers in this way achieves two main things. First, it dramatically reduces poverty in society by ensuring that families with large numbers of nonworkers are able to secure an adequate minimum income. Second, it reduces the inequality between families with similar levels of earnings but different numbers of nonworkers. In a system without a welfare state, a high-earning worker who lives with a disabled spouse and two children has a much lower standard of living than a high-earning worker who lives with a high-earning spouse and no children. But in a system with disability and child benefits, the families' standards of living are much more similar.

Once this basic framework is understood, the question of how to design a child benefit becomes easy to answer. The benefit should be a flat dollar amount provided to every family for every child who currently lives with them. It should flow to the rich and the poor alike, with no phase-in and no phase-out.

But how high should this universal benefit be? The federal poverty guidelines point us to a very specific answer: $4,480 per year, which is $374 per month. This is the difference between the poverty line for a one-person family ($12,760) and the poverty line for a two-person family ($17,240).[11] By setting the universal child benefit at $374 per month, we would be guaranteeing that no family is ever pushed into poverty merely because they had a child. We would also be guaranteeing that all families, regardless of their background income, would receive an income boost whenever they add a child to their family.

As far as financing such a program goes, in the near term, it is not something to worry about. The economy is still reeling from the coronavirus recession, meaning that fiscal expansion in the form of a universal child benefit should be welcomed as an economic stimulus measure.

In the longer term, financing the program is not especially difficult. There are around 77.3 million children between the ages of 0 and 18 currently living in the United States. Providing each of them a $374 per month benefit would result in gross outlays of $365 billion per year. But this would initially be offset by the elimination of the ACTC, CTC, and EITC programs, which currently cost $195 billion.[12] The net cost is therefore only $151 billion per year. For comparison, this is equal to just 0.7 percent of GDP, 20 percent of the military budget, and 14 percent of current Social Security benefit outlays.[13]

There are many ways to raise the remaining $151 billion when it becomes necessary to do so. For example, returning the military budget to pre-Trump levels would save $141 billion.[14] Returning the corporate tax rate to pre-Trump levels would raise $102 billion.[15] Increasing the tax rates for the top four tax brackets by 3 points would raise $59 billion.[16] Increasing the employer-side payroll tax by 1 percentage point would raise $78 billion.[17] And these are just a few of the possible options.

The latter two revenue options—hiking the payroll tax or income tax a bit—are of course not strictly necessary. A benefit like this is so inexpensive that it could be exclusively financed by levies on the super rich. But I have included these revenue options here in order to make a point that is largely absent from our current policy discourse: taxes are basically the same thing as benefit phase-outs except that they are much better in every way.

For example, a 3-point rate hike for the top four tax brackets would, in 2021, increase taxes on tax units with adjusted gross incomes above $98,926 (single filers), $105,151 (head of household filers), and $197,851 (married filers). In many circles, this would be declared a non-starter. After all, it raises taxes on the upper middle class while also funding benefits that in part go to the very rich. But if you compare this 3-point rate hike to the current child benefit scheme, which uses a 5 percent phase-out rate for families with incomes above $200,000 (single and head of household filers) and $400,000 (married filers), the 3-point rate hike actually fares better. Every one-parent family with income below $181,000 comes out ahead relative to the current scheme, and many with incomes beyond that amount come

out ahead depending on their number of children. For two-parent families, the same number is $281,000. Families with incomes beyond these amounts would fare worse than in the current scheme and families with incomes way beyond these amounts, such as people earning millions of dollars per year, would fare way worse.

This is one of the great contradictions of American policy discourse. Policy mechanisms like means-tested tax credits that actually spare the rich are talked about as if they stick it to them, while policy mechanisms like tax-funded universal benefits that actually soak the rich are derided as upper-class giveaways.

Having the Social Security Administration provide the exact same $374 monthly payment to every parent for every child is the simplest solution to the child income problem and also the technocratically superior one.

THE ANTIPOVERTY EFFECTS OF A UNIVERSAL CHILD BENEFIT

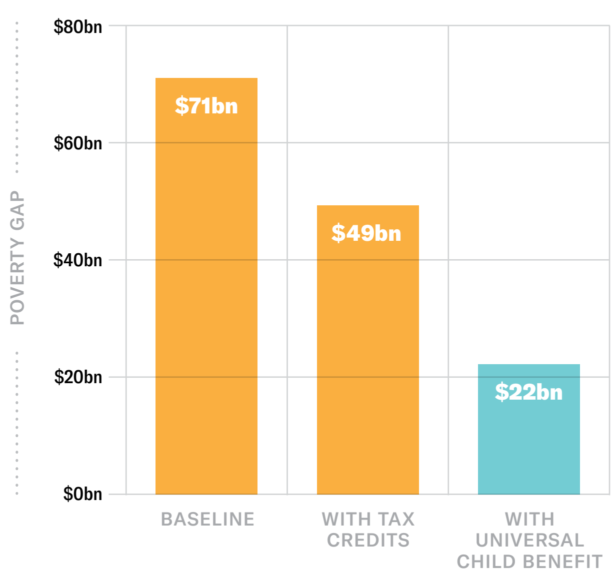
The best way to analyze the antipoverty effects of a specific program is through a poverty gap measure. Under this kind of measure, rather than counting the number of people who are below the poverty line, you add up how many dollars each of them is below the poverty line to derive an aggregate poverty amount. From there, you can see how much any given program reduces the aggregate poverty amount in order to assess how effective it is at reducing poverty.

This poverty gap approach is an improvement over the headcount poverty approach because it counts every dollar provided to poor people as reducing poverty while the headcount poverty measure only counts dollars provided to poor people who, because of the receipt of those dollars, see their incomes lifted above the poverty line. As mentioned already, the headcount poverty measure can be gamed by targeting dollars to individuals just below the poverty line, which is precisely what the current tax credit regime does.

In 2019, poor families with children were collectively $71 billion below the poverty line before counting the money received from the EITC, CTC, and ACTC.[18] When those benefits are counted, the poverty gap falls to $49 billion, a decline of 31.5 percent. By contrast, the universal benefit proposed here reduces the poverty gap to $22 billion, a decline of 69 percent.

For deep poverty, defined as families who are below half of the poverty line, the poverty gap for families with children was $14 billion in 2019. The child tax benefits bring the number down to $11 billion, a decline of 20 percent. The universal child benefit brings the number down to $4 billion, a decline of 70 percent.

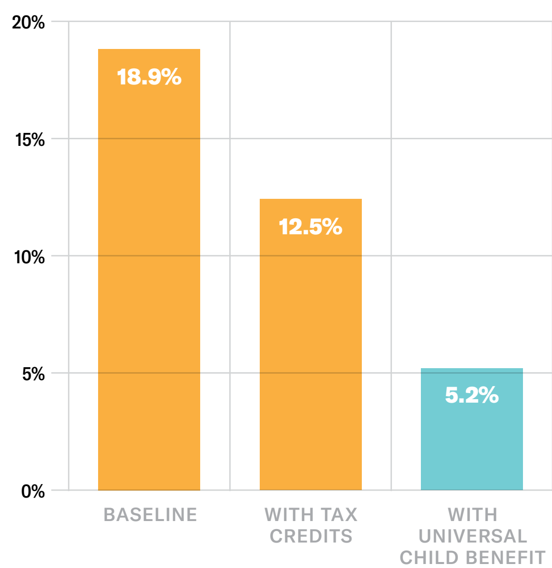
POVERTY GAP OF FAMILIES WITH CHILDREN IN DIFFERENT SCENARIOS (2019)



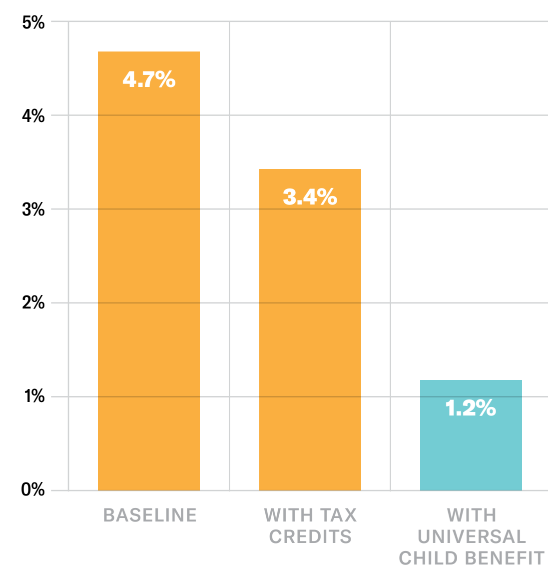
DEEP POVERTY GAP OF FAMILIES WITH CHILDREN IN DIFFERENT SCENARIOS (2019)

Although the headcount poverty measure is a bad one that has led us right to the predicament we currently find ourselves in, it is conventional to include it in papers like these, and so I have done so in the next two graphs.

HEADCOUNT POVERTY RATE OF CHILDREN IN DIFFERENT SCENARIOS (2019)



HEADCOUNT DEEP POVERTY RATE OF CHILDREN IN DIFFERENT SCENARIOS (2019)



These figures make it clear that the universal child benefit is vastly superior to our current tax credit system at reducing poverty among families with children. In fact, these numbers understate how much better the universal child benefit is because, as discussed above, they are generated using the CPS ASEC tax model that wrongly assumes every person who is eligible for the EITC, CTC, and ACTC actually gets it. The real amount of poverty reduced by the existing tax credits is probably about one-third less than the already small amount reported in these four graphs.[19]

FOUR EDGE CASES

Although the Earned Income Tax Credit almost entirely flows to families with minor children, three other small populations have been bolted on to the program over the years. The populations are:

1. **Childless tax units with earnings below $15,570.** They are eligible for a maximum credit of $529, but only units with earnings between $6,920 and $8,650 can actually claim the full credit.[20]

2. **Full-time students between the ages of 19 and 23.** This EITC benefit is not paid to the students themselves but rather to their parents, provided that the students were enrolled in school for 5 or more months in the year and lived with their parents for most of the year.

3. **Permanently and totally disabled adult children.** As with students, this EITC benefit is not paid to the disabled person but rather to their parents provided the disabled person lives with them for most of the year.

There are good reasons to question the wisdom of including these bolted on populations. We already have a program that provides financial support to college students from low-income populations called Pell Grants. Why have a duplicative EITC benefit for such students that requires that they live with their parents and that excludes students whose parents happen to be very low-earning? And why pay that benefit to the parents rather than the students? Surely it would be better to just increase Pell Grants.

Similarly, we already have programs that provide financial support to permanently and totally disabled adults: Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI). Why have a duplicative EITC benefit for them that is contingent on them living with their parents, something many of them do not want to do? And why pay that benefit to parents rather than to the disabled person? Increasing SSDI and SSI benefit amounts makes far more sense.

Nonetheless, for our purposes here, it is easier to simply bracket these three populations and keep them eligible for the EITC, even though the rest of the EITC program is being eliminated.

The fourth edge case does not apply to a bolted-on EITC population but rather a very narrow group of families with children. Specifically, there is an edge case for one-child families whose earnings are right at the sweet spot where they are simultaneously receiving the maximum EITC benefit, the maximum ACTC benefit, and some of the CTC benefit. As illustrated in the graphs above, this family could receive as much as $4,926 for their one child under the current system, giving them a per-child benefit greater than the $4,480 benefit proposed in this paper.

In my view, this edge case is not actually a serious problem. The number of people who consistently have one child and earnings right at the sweet spot, year after year, is vanishingly small. Around 80 percent of mothers who have one child go on to have two or more, at which point the per-child benefits offered by this proposal exceed what can be obtained under the current system even at the sweet spot.[21] Furthermore, earnings are volatile year to year and change over the lifecycle, meaning that even the 20 percent of mothers who only have one child are not likely to have earnings that put them in that sweet spot over and over again. When considered across multiple years, it's clear then that this edge case barely exists, if it exists at all.

Nevertheless, if the drop at the sweet spot concerns policymakers, it can be solved fairly easily by either (1) making the universal child benefit equal to $4,926 for the first child, and $4,480 for every subsequent child, or (2) by retaining an EITC benefit only for one-child families that is specifically calibrated to top them off at the sweet spot so as to ensure that their combined universal child benefit and special one-child EITC is equal to or greater than the amount that is currently provided to families at the sweet spot.

With these four edge cases resolved, we can be sure that the universal child benefit leaves nobody, except the rich, worse off than the status quo and leaves almost all families with children better off.

CONCLUSION

The problem of how to provide for children, just like the problem of how to provide for the elderly, is one of the easiest ones for an affluent society to solve. Because we do not expect elderly people or children to work, providing each of them an income is as simple as having the government send them a check every month.

The Social Security Administration already does this for the elderly population, as well as the disabled population, and it should do the same for children. A universal child benefit would radically simplify our current child benefit scheme, nearly wipe out child poverty, and provide income-smoothing for all families whenever they have a child.

If the political window opens to reform our existing child tax benefits, I hope that policymakers opt for the proposal I have laid out here rather than doubling down on the failed tax credit model that will continue to be a failed model no matter how much you rearrange its parameters. 3P

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19 Census Bureau. Maggie R. Jones and James P. Ziliak. The Antipoverty Impact of the EITC: New Estimates from Survey and Administrative Tax Records. https://www2.census.gov/ces/wp/2019/CES-WP-19-14.pdf.

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People's Policy Project is a think tank founded in 2017. The primary mission of 3P is to publish ideas and analysis that assist in the development of an economic system that serves the many, not the few.

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