CATCHING UP ON THE COST OF RAISING CHILDREN:
Creating an American Child Allowance

by

Megan A. Curran, InclusionUS

The United States is a wealthy, powerful, and diverse nation—with the potential to offer much to its children. Yet evidence suggests that American children are not faring nearly as well as they could be.

In 2013, the United States ranked 26th (out of 29 high-income countries) on child poverty and well-being (Adamson 2013). Economic changes have affected Americans of all ages, but children—particularly very young children—have borne the brunt of the effects. Close to half of all American children (43 percent) currently live in economically insecure households. Nearly one in five children live below the official poverty line, but approximately one in four children under the age of six do (DeNavas-Walt and Proctor 2014; AECF 2013).

The United States is also an outlier among high-income nations in terms of public investment in children. This is so, even when compared only with those with which it has the most in common in terms of welfare state structure and politics—Australia, Canada, Ireland, and the United Kingdom. Specifically, those countries offer a national child allowance (or child benefit) cash transfer to support families with the cost of raising children; the United States does not.

Not only does the United States lack a dedicated child allowance, but overall federal spending on children's social programs is in decline and significant disparities in program eligibility, access, and child outcomes exist across states (Isaacs et al. 2013; Gais 2012).

A U.S. national child allowance can support parents and reduce poverty, while countering current underinvestment trends and regional disparities in child outcomes. This proposal draws upon international evidence to identify a set of key characteristics common to successful child allowance policies—and of most relevance to the American policy context—to develop a set of options for creating and administering a national child allowance in the United States.

What Is a Child Allowance?

In its most basic form, a child allowance (used here interchangeably with the term *child benefit*) is a regular cash payment the state makes to parents based on the presence and number of children in the household. Historically, it has served as the "primary policy instrument" in the field of family policy internationally and is "still the most popular vehicle" used to support children in industrialized nations today (Kamerman and Kahn 1997, 3; Bradshaw and Finch 2002, 24).

A child allowance is first and foremost designed to assist families with the financial cost of raising children. Evaluations from countries where child allowances are in place show that increases in household benefits for children are linked to increased spending on children's items (Waldfogel 2010; see also Gregg, Waldfogel, and Washbrook 2005, 2006 and Madden 1999). Countries often structure them with close links to child care policy and also use them as antipoverty policies (Harding 1996).

Why Compare Policy across Countries?

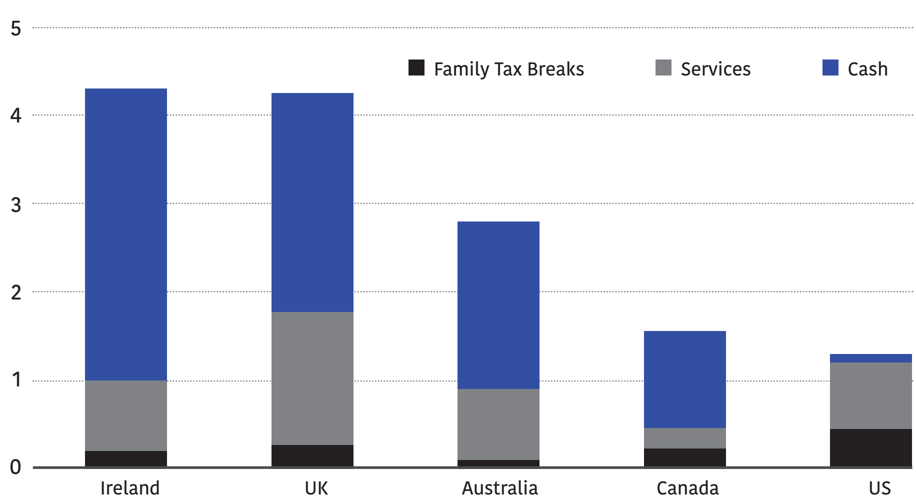
It is common to want to know how one's country fares in comparison to others. For policymakers in particular, it is useful to know what lessons—or cautionary tales—can be gleaned from other countries' experiences.

Since it is long established that U.S. welfare state investment levels differ greatly from those of the Scandinavian countries, it is useful to consider how countries with welfare systems and challenges similar to the U.S. structure operate their child allowances. Institutionally, Australia and Canada are federal systems like the United States, with their political and decision-making power divided among the central government and states/provinces. The United Kingdom is a more centralized state, but there is a history of sharing social policy between it and the United States and recent decades have seen a convergence in their welfare spending and delivery trends (Midgley 2008). Ireland is a small country but has one of the highest proportions of means-tested social expenditure in Europe, making its public investment trends very similar to those of the United States (NESC 2005).

Together, the five countries highlighted here (including the United States) are all known as "liberal" welfare states—in the sense that they have market-oriented approaches to public-sector care and service provision; moderate levels of social expenditure; means-tested benefits; and an overall tendency to "leave most up to the family even where others have assigned larger roles to the state" (Esping-Andersen 1990; Kamerman and Kahn 1997, 16). They also all have relatively low rates of elderly poverty but significantly higher rates of child poverty and income inequality and offer similar types of wage subsidies, tax offsets, and rebates to families to combat these trends (Esping-Andersen et al. 2001).

Figure 1

Public spending on family benefits in cash, services, and tax measures, in percentage of gross domestic product, 2009



Source: Adapted from OECD Family Database Chart PF1.1.A (OECD 2014).

Experts observe, however, that the United States is an outlier even within this group. Not only is it the lowest of this group on overall public spending on families, but most notably, "the U.S. is unique in its *lack* of a universal child or family allowance" (Kamerman and Kahn 1997, 17).

U.S. Social Policy: A Safety Net with Many Holes

The introduction of a national child allowance in the United States would not occur in a policy vacuum though. The U.S. federal budget contains more than 180 programs relating to children (First Focus 2013). And while the U.S. safety net has strengths, it is a patchwork—rather than a universal—system of support.

The children's programs with the broadest reach and greatest antipoverty impacts include the family tax credits; the Supplemental Nutrition Assistance Program, or SNAP (formerly known as Food Stamps); and Medicaid. They also happen to be the children's programs structured as federally funded entitlements, which have no annual funding caps and require no regular legislative appropriations. As such, they are often immune from year-to-year budget fluctuations and—crucially—are able to serve all who are eligible. In contrast, the vast majority of children's programs are means-tested and funded by the discretionary part of the federal budget, meaning they have capped funding levels requiring annual appropriations.

Children's programs are also subject to a number of design constraints that significantly affect access and program impact—what Quinterno (2013, 12) terms the "eligibility gap, the coverage gap and the hardships gap"—and result from inadequate income thresholds for program eligibility; restrictive funding structures (such as block grants); and benefit levels insufficient to bring families out of poverty.

The detrimental interaction of these factors can be seen within the one existing U.S. program that most closely resembles a national child allowance—the Child Tax Credit. Despite its good intentions and fairly broad reach, the Child Tax Credit has a very uneven phase-in and phase-out system; has limited accessibility for low-income families because it is not fully refundable; and loses value each year, as it is not indexed to inflation.

Finally, children's access to the safety net depends largely on where in the United States they live. Eligibility and coverage rules vary significantly by state—producing geographic, racial, and ethnic disparities and reducing the overall efficacy of safety net investments. Such disparities are critical to note in light of recent demographic shifts, as the U.S. child population is growing in the exact regions where public investments in children are the lowest and child outcomes are the worst—specifically the Southwest (O'Hare, Mather, and Dupuis 2012).

How, then, to address these troubling trends?

There is a clear need to reverse the decline in U.S. public investments in children and address the structural gaps in the set of programs that serve them. A nationally uniform, federally funded entitlement specifically dedicated to children—and one that will reach lower- and higher-income families both—would serve these dual purposes.

Comparing Child Allowances

What, then, do the experiences of other countries offer the United States? A 2014 review of the child allowances in Australia, Canada, Ireland, and the United Kingdom, conducted by the author, revealed the uniqueness of each program. They offer different benefit amounts, payment methods, and schedules, and some target particular groups within the child population more than others (e.g., children in single-income households, children in poverty, or children in different age groups).

Yet a number of key commonalities also emerged: integrated, national benefit administration systems and high take-up rates; frequent payments; a decoupling of child allowances from parental employment status; and a broader, two-prong approach to serving children with both cash allowances and direct services.

Relevance to U.S. Policy Priorities

On two points of importance to U.S. safety net policy—the interaction between public benefits and the labor market, and state and local flexibility over program design—Canada, perhaps, offers the most interesting comparative example.

U.S. policymakers are particularly attuned to potential labor market incentives and disincentives—for example, effective marginal tax rates, or the potential income loss incurred when an individual moves from social assistance into paid employment—when considering social payments to families. That is in large part because the current U.S. system of public supports is closely tied to employment as a condition for benefit receipt.

Canada targets its child allowance payment levels by income but has worked to create a "smooth" benefit structure to prevent sharp vertical inequities between families who have similar incomes but who may fall within different income brackets of benefit eligibility (Battle and Mendelson 2001, 134). As a result, a 2013 evaluation of the Canadian child benefit program found that its design "made work financially more attractive than social assistance for families by improving the difference between minimum wage employment and social assistance" (ESDC 2013).

And though its child allowance is a federal program, Canada also purposefully preserved the federal–state balance of power in its National Child Benefit reform by providing provinces and territories with the

> flexibility to adjust social assistance or child benefit payments [in their area] by an amount equivalent to the National Child Benefit Supplement. If they choose to adjust social assistance or provincial and territorial child benefit payments, they then reinvest these social assistance savings (or provincial and territorial child benefit savings) and any additional funds in benefits and services for low-income families with children. (ESDC 2013)

This is an effort to enable province-level governments to adjust aspects of the National Child Benefit program for their localities as they see fit, while still maintaining a universal benefit floor and stable overall funding levels nationwide. The recipient programs of this reinvestment are most often child care and preschool programs operated at the provincial/territorial level, but they may also include local wage supplements, children's healthcare, and youth services. This is of particular relevance for the United States given that the bulk of U.S. in-kind services for children are operated at the state and local levels.

These features reflect the choices these countries have made on the best way to deliver public investments in children. But child allowance policy decisions are also significantly influenced by a country's own political context—most notably, national political commitments on income and child poverty, particularly in Australia, Ireland, and the United Kingdom (Curran 2014). Taken together, this information provides a relevant set of evidence to inform debate and decision making on a U.S. child allowance.

Creating a Child Allowance in the United States

A national child allowance, done well, has the potential to address a number of the structural shortcomings within the current U.S. welfare system. From the Australian, British, Canadian, and Irish child allowance experiences emerges a set of policy elements critical to success that should be central to the design and implementation of a U.S. child allowance:

Simplicity

An easy-to-understand allowance, with clear eligibility, access, and payment features, can not only foster political and public support but help contain administrative costs and encourage take-up. In addition to international examples, innovations in public program enrollment, retention, and delivery are also emerging across various U.S. states and localities (Dorn and Lower-Basch 2012) and can help inform the system design of a national allowance.

Broad-Based Eligibility

Universal (or as close to universal as possible) eligibility minimizes stigma and administrative complexity, and assists in the achievement of high take-up rates. If the decision is made to target the allowance, Canada's "smooth" system offers a model for income targeting that softens the distinction between income brackets while still reaching a majority of children. Alternatively, the allowance can target different age groups—providing higher benefits to newborns and adolescent children, as in Australia, or weighting allowances more heavily toward pre-school-aged children (when evidence suggests developmental gains are high). The latter has been proposed, but not enacted, for the U.S. Child Tax Credit (Curran 2013). Eligibility criteria should also be structured in a way that recognizes the financial needs of larger families.

Structure It as a Federal Entitlement

Too often, capped funding levels mean that U.S. children cannot access the supports for which they are eligible. Structuring a national child allowance as a federal entitlement program ensures that all eligible children will receive it and access will be uniform across the country.

Independence from Employment Status

By making no eligibility distinctions by sources of household income, a national child allowance can function as a consistent, nonstigmatizing, and "portable" benefit for children, regardless of changes in family income levels or parental employment. This is a key antipoverty feature, as studies show that families on lower incomes are constantly moving in and out of poverty due to the uncertainties of low-wage work (Quinterno 2013). An independent child allowance can help stabilize the amount of family income available for children's needs.

Frequent Payments

To truly assist with the cost of raising children, an allowance must be delivered on a regular basis to assist with regular costs (e.g., food, child care, transportation, education and extracurricular fees, and more). At a minimum, a U.S. allowance should be delivered on a monthly basis—but the experience of other countries suggests that it is possible, and indeed beneficial, to deliver payments on a fortnightly or even weekly basis.

Couple an Allowance with an Increase in In-Kind Services

Research on investing in children, as well as the experience of the highlighted countries, demonstrates that cash transfers are most effective when coupled with direct services for children. An expansion of services for young children, such as universal child care or preschool—alongside a national allowance—would require additional investment. But the overall cost for these direct services are minimized and contained by the fact that they are, by default, targeted to a narrow set of young children because children "age out" of child care and preschool services after just a few years (Fahey and Nixon 2013).

"Big Bang" Policy Implementation

To borrow Battle and Mendelson's (2001) phrase from their analysis of the Canadian reform, it is best to roll out a new child allowance program in its full state—in a "big bang"—rather than using an incremental approach. This method ensures the full implementation of a new policy and, critically, the preservation of political support and funding.

Manage Expectations for Success

It is important to be clear about what a national child allowance can and cannot achieve as a new policy. In other words, do not set the policy up to fail, politically or in the eyes of the public. Analysts from various countries note that as a cash transfer alone (i.e., without in-kind services or broader economic changes), a child allowance is unlikely to be a silver bullet for child poverty eradication. However, it does play a real preventative role: reducing the depth and incidence of poverty for families on lower incomes, contributing to social inclusion, and promoting child well-being across income levels and across the country.

Administering a U.S. Child Allowance

The preceding are all key policy elements to incorporate within a U.S. national child allowance. Given the collection of current public supports for children, though, how might such an allowance be delivered within the existing U.S. system?

In terms of administrative ease, two primary options present themselves:

Administration through the U.S. Tax Code

The Internal Revenue Service is already in regular contact with the majority of U.S. households with children, even those on very low incomes. A child allowance administered through the tax code could either complement existing tax credits specific to children, including the Child Tax Credit or the Child and Dependent Care Tax Credit, or be structured as a reformulated version of one or both of those credits in a way that broadens eligibility to capture low-income families currently ineligible, simplifies filing, and pays out frequently (at least monthly, ideally even weekly or biweekly). Complicating this administrative setup is that the IRS is primarily geared to make annual—rather than frequent—payments to households. However, recent research indicates that the IRS can improve its methods of distributing frequent payments with minimal risk to households (see, for example, Maag 2010).

Administration through the U.S. Social Security System

Alternatively, a new U.S. child allowance could be housed within the Social Security Administration. This system is one with the capacity to collect dedicated revenue streams and is already set up to make monthly payments to households. The registration of a child at birth for a Social Security number can trigger automatic enrollment into the child allowance program. The administration of both a child allowance and Social Security through the same system also would have a nice symmetry—in that one federal agency would be tasked with the mission to administer universal income security payments to those unable to support themselves through employment: the youngest and the oldest in society.

Conclusion

Creating a child allowance in the United States means creating a new investment in children.

New public investments require not only a sound evidence base but also political will and timing because "for better or worse, all programs must live and die in a political environment" (Battle and Mendelson 2001, 132). Former acting U.S. Secretary of Commerce Rebecca Blank (2010, 179) observed that "it is not an accident that the creation of nationally legislated public assistance programs in the United States did not occur until the Great Depression of the 1930s"—that only in the face of "the deepest and longest period of economic stagnation in U.S. history . . . was it politically possible" to establish new large-scale supports at the federal level.

Today, in the aftermath of the deepest global recession since the Great Depression, the United States is arguably at an equally important crossroads—particularly for the fate of its youngest generation. The creation of a national child allowance may not be a cure-all for America's children, but it is a worthwhile place to start.

Megan A. Curran is a researcher at University College Dublin, Ireland, and an associate at InclusionUS, an organization providing international research and consultancy on issues of economic and social inclusion.

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