The Daily Dish

Child Poverty and Social Safety Net Policy

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Eakinomics: Child Poverty and Social Safety Net Policy

Tara O'Neill Hayes has recently written three valuable papers on poverty measurement, poverty patterns, and child poverty in the United States. The issues raised in the latter, and most recent, are central to understanding the debate over the Child Tax Credit (CTC).

The American Rescue Plan (ARP) substantially expanded the CTC, raising the maximum age to 17, expanding the credit from $2,000 to $3,000 ($3,600 for children under 6), and making the credit fully refundable. (There is also a rather complicated phase-out structure; see here for more details.) The new CTC is very generous – and very expensive. The ARP put the new CTC in place for one year, but the Biden Administration and congressional Democrats wish to extend it, or even make it permanent. Over the next 10 years, the new CTC would cost $1.6 trillion. The huge price tag is one aspect of the debate.

Advocates argue, however, that making the richer CTC permanent would cut child poverty in half, and this is where things get interesting. A child is considered poor if the household in which she or he lives is considered poor. Sending the CTC to a household does not change the poverty status of that household because the Official Poverty Measure (OPM) is essentially a measure of self-sufficiency. In contrast, there is a Supplemental Poverty Measure (SPM) that is a proxy for material wellbeing, and counts the value of government assistance – including the CTC – toward that material wellbeing. Thus, it is the SPM that would be directly affected by the increased generosity of the CTC.

The OPM could be impacted if the CTC affected self-sufficiency and there is good reason to fear that it will – and adversely. By making the CTC fully refundable, households receive it whether they work or not – which is not much of an incentive to work. The National Academy of Sciences found that an expansion of the CTC similar to the expansion implemented by the ARP would reduce the number of people in deep poverty (one-half the poverty line or less) by nearly 50 percent. There is a tradeoff because of the work disincentives, however. As Hayes puts it, "While such individuals will see the greatest increase in their financial resources, they are also the least likely to be working and thus most likely to be influenced by incentives to work. Reducing the CTC's incentive to work may slow people's mobility out of poverty.

In short, it is a classic tradeoff: The CTC increases post-tax, post-transfer income, but likely reduces the pre-tax, pre-transfer starting point. Thus the effectiveness of this extremely expensive safety net expansion is simply unclear.