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Fighting Childhood Poverty: How a Universal Child Allowance Would Impact the US Population.

Modern developed economies have a material abundance beyond the imagination of people living two centuries ago, yet for many the guaranteed ability to access that material abundance is more tenuous than ever. In the US a job loss or an illness can strip the family of all assets faster than a drought could destroy the livelihood of a 19th century farmer. As a reaction to this many young adults are choosing to delay or forego having children. The largest age demographic in the US who live in poverty are children. Social Security is politically popular and has been successful at dramatically lowering poverty amongst the elderly. A similar policy could be equally successful for children. This essay uses Consumer Expenditure Survey data to explore how a universal child allowance could decrease the number of children living in poverty and help all US families with children.

Introduction

Twenty percent of US children live in poverty, even more consistently live within financially distressed households. “Among all children under 18 years in the U.S., 41 percent are low-income children and 19 percent—approximately one in five—are poor. This means that children are overrepresented among our nation’s poor; they represent 23 percent of the population but comprise 32 percent of all people in poverty.” (Kobal and Jiang 2018 p. 1) These numbers compare poorly to individuals between 18 and 65 as well as those over the age 65. Of prime age adults 13% live in poverty and only 29% live in low income. For people over 65 only 9% live in poverty and 28% are low income. Prime age individuals are able to sell their labor and lift themselves out of poverty and the elderly have Social Security available to guarantee a minimum income. Children have neither and are dependent upon winning the birth lottery to experience a childhood of financial security.

Raising a child is both emotionally and financially costly. Parents will always endure the emotional burdens but currently they also bear the financial costs with little help from society. Businesses, government, and childless citizens all gain from each functional adult produced, yet those beneficiaries contribute only marginally in paying the costs to produce those adults. The act of becoming a parent results in lower savings, lower quantities of assets, and a lower ability to consume. While public education helps in raising children the US has no other universal programs. US families are offered few protections from financial threats and many Americans believe that only those who have sufficient money are morally justified in having children. An extension to this morality tale is the perception that poor

households are more likely to have children when compared to middle and upper income households. According to this narrative poor children are the result of poor people being morally irresponsible. Yet the numbers show that poor households are much less likely to have children. This creates the ironic situation where children are suffering for the perceived immorality of their parents even when demographically those parents are already restraining themselves far more than middle or upper income households.

US society is no longer a protective institution helping individuals perpetuate the species, instead US society feeds off the generosity of parents consuming the surplus of parental nurturance. From the market/financial perspective having children is a losing proposition and being a parent represents volunteering to subsidize not only children but all of society. Perhaps this may be why so many young people are choosing to forego children. Society is supposed to be a protective institution yet US society abandons poor families and treats children as a luxury good that only the wealthy should be entitled to enjoy.

Section 2 of this paper will show that poor households are far more likely to forego having children than are middle or high income households. Section 2 will also use Consumer Expenditure Survey data (CES)¹ to measure the number of households with children that live in poverty (CES 2018). Section 3 will review the literature on universal child allowances and offer a policy proposal. Section 4 will then experiment with the proposal by using CES household level data to show how the policy would impact the poor. The paper will then conclude.

Who can afford children and how many live in poverty?

The USDA uses CES data to regularly publish a report on the cost of raising a child. In 2017 the USDA estimated that low income families paid around \$9,330 a year per child, middle income households paid \$12,350, and high income households paid \$19,380. (USDA 2017). The USDA methodology only computes expenses for which a dollar price is paid; non-dollar expenses are not included. For example households where parents stay home to take care of children do not have the implicit cost of childcare incorporated into these calculations. The result is that low income households,

who often have family members care for children, are shown as paying a lower price for raising a child than do higher income households.²

The CES numbers can help in identifying which income groups have a greater percentage of households with children. Table 1 shows that upper and middle income households are more likely to have children.³ It should be noted that low income households who do have children have similar family sizes when compared to middle or high income households.

Using percentages allows these numbers to serve as proxies for the US population; however using percentages may lead the reader to misinterpret the magnitudes with respect to the number of households in each income group. The USDA breakdown of incomes puts the top income of low income households at \$59,200 which is the US median household income. Such a breakdown thereby places half of all US households into the low income category. To put the magnitudes in context it is useful to note that there are more than double the number of childless low income households than all high income households combined. Poor households en-masse are choosing to forego having children because society has made it financially impossible for them to do so.

Table 1: Percentage of households who have children

Age Category	High Income	Middle Income	Low Income
16-20	66%	46%	17%
21-30	39%	44%	35%
31-40	76%	71%	62%

Source: CES Data and Author's calculations

In order to more easily see the impact income has on the choice to have children Table 2 concentrates solely upon those households that report not having children. Table 2 takes all the childless households in each age group and shows the percentage of households that fall into the differing income categories. This analysis shows that the vast majority of childless households in the CES data fall into the low income category.⁴

Table 2: What percentage of childless houses fall into each income category.

Age Category	High Income	Middle Income	Low Income
16-20	0.80%	4.50%	94.70%
21-30	5.20%	17.80%	77.00%

31-40	11.90%	27.80%	60.30%
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Source: CES Data and Author's calculations

Using CES data and the USDA child cost estimates it is possible to calculate the percentage of households lacking the funds to afford a child for both the population as a whole and for differing demographic groups. Table 3 makes the estimate for the population⁵ and table 4 looks at just childless households broken down by income using the USDA child cost estimate for each income category.⁶

Table 3: Percentage of all households who can afford a child

\$9,330 Threshold		
Age Category	All households	Childless households
16-20	45%	38%
21-30	75%	72%
31-40	87%	83%

Source: CES Data and Author's calculations

Table 4: Percentage of childless households who can afford a child by income category

Age Category	High Income (\$19,380 cost)	Middle Income (\$12,350 cost)	Low Income (\$9,330Cost)
16-20	100%	99%	34%
21-30	99%	99%	64%
31-40	99%	98%	73%

Source: CES Data and Author's calculations

Tables 3 and 4 combined show that it is almost exclusively low income households who cannot afford children. Middle and high income households can afford children and can afford to spend significantly more on each child. Low income households however cannot afford children even if they choose to spend less money on any potential children they were to have. Poor people are less likely to have children and are less likely to be able to afford children.

Using the USDA child cost estimates, CES data, and the poverty guidelines published by the department of Health and Human Services (HHS 2018) the number of households with children that fall into poverty can be calculated. Table 5 shows the percentage of all households with children in the CES data set who are living in poverty.⁷ The numbers reported in table 5 are households, not individual children, which is why there is a difference between the 12% total and the 20% statistic given for children living in poverty.

Table 5: percentage of households with children living in poverty

Age Category	Percentage
16-20	26%
21-30	20%
31-40	11%
41-50	9%
51-60	10%
>60	19%
Total	12%

Source: CES Data and Author's calculations

The next section will offer a possible policy option that could help all households with raising children.

An overview on a universal child allowance.

Existing US programs to assist in raising children are poorly designed or non-existent. While there are programs designed to help alleviate some issues with child poverty there are no universal programs dealing with the financial costs children bring with them.

Child poverty is destructive and estimates place the economic cost of US child poverty at between 500 billion to over 1 trillion dollars a year. (McClaughlin and Rank 2018) Policies such as the child tax credit and the child tax exemption defray some financial costs but they only help families that already have taxable income. As Steve Pressman noted in 1993 tax expenditure policies are inherently regressive (Pressman 93). The result of these policies is that families receive little help in times of greatest financial stress such as when they lose a job. A universal child allowance would help all households in all economic situations.

Such a universal child allowance has been implemented in many countries around the world. (Shaefer et al 2018) Lewis E Hill, upon receiving the Veblen Commons award, compared US policies to the much more progressive policies implemented in France. In Hill's remarks he notes the extensive benefits France has implemented to ease the burden faced by parents. (Hill 98) The US has no policy to help with child care expenses and few policies to help with the myriad of financial costs resulting from having children. For those wishing to believe that a more generous set of policies would lead to a

dramatic increase in the number of children the World Bank reports that the population growth rate in France is .4% whereas in the US it is currently .7%. (World Bank 2018)

The biggest obstacles to establishing programs to help poor families are political yet the current political environment offers an opportunity to create a truly universal childhood income program. Popular media has been offering many articles about the benefits of a universal income for all. A universal child income could be offered as a test case that would appeal to those attracted to a universal income for all. A universal child allowance would also be popular with advocates for the poor as well as those advocating for traditional family values. Most importantly a universal child allowance would be popular with almost all households who are raising children. If implemented correctly a universal child allowance could cross political divides and be broadly popular, however to do so it must be constructed properly.

The institutional community has had a long running discussion on policies that could lower household poverty as well as be politically acceptable to a majority. Some have argued that policies such as an expansion of the Earned Income Tax credit might be the best way to go. (Peterson 89) Others have been committed to a universal child allowance. (Pressman 89, 93) Certain types of government policies are popular with the public and others are not. As William Waller wrote “One-directional transfer payments that appear nonreciprocal, like Aid to Families with Dependent Children (AFDC) are unpopular and under pressure to become reciprocal; whereas one-directional transfers that can be made to appear reciprocal, like Social Security, avoid this public pressure.” (Waller 89 p. 1048) The implementation of any child allowance must be done in such a way as to be politically popular and be perceived as morally defensible.

A common theme in the institutional literature is the social acceptability of programs that are seen as earned versus those seen as charity (Waller 87, Peterson 2000, Rose 2000). Social Security is often cited by Institutionalists as a policy that is publically popular and successful with respect to minimizing old age poverty (Waller 87, Pressman 89) and this paper will use it as a model for a universal child allowance. One final consideration should be that the allowance is not being given to the parents, instead

it is being given to the child but administered by the parents. Parents are the guardians but the aid is for the child and by having the aid the household as a whole will be strengthened.

In order to address the above concerns the following policy should be considered: The US federal government should adopt a universal child allowance equivalent to the USDA's estimate of the yearly cost of raising a child for a low income family. For purposes of this paper the allowance would be \$9,330 a year per child. This will be a universal child allowance going to every child in the US to be administered by their guardians. In order to create the appearance of reciprocity there will be a tax placed upon the future incomes of the children who received this benefit as well as all companies since they also benefit from the future labor the children will provide.

Since the USDA estimate includes the cost of housing, food, clothing, childcare... this amount should be close to the minimum amount a household would need to offset the expenses a child brings into the house. The money would go to the guardians in the form of a monthly cash stipend. The cost to society in 2018 for such a program would be \$691 billion, or roughly 3% of GDP.⁸ Some of this cost could be offset by a diminution or elimination of other programs such as the child tax credit and tax exemptions or other such programs could be left untouched to avoid the politics involved with the elimination of those programs. Shaefer et al estimate that current government programs to help parents with children cost around 223 billion per year (Shaefer et al).

A tax on all incomes could be used to offset this program's expenditures. This tax would be paid by businesses and eventually by the children who have received this benefit.⁹ The tax could start out as being solely funded by business at a 3% rate but that rate could be lowered as current recipients began earning income. As the first generation of recipients come of age they would be responsible for paying 1.5% of their income in reciprocity for the benefits they received growing up. The other 1.5% would continue to be paid by businesses who would benefit from better quality workers that would arise due to the allowance.

The impacts of the proposed universal child allowance

This section will use CES data along with the allowance amount of \$9,330 in order to estimate the increase in the number of households who could afford children as well as the impact upon poverty rates of households with children.

Table 6 shows how the boost in income from the child allowance would impact the number of childless households who could now potentially afford a child post allowance.¹⁰ Table 6 also compares the new numbers to the pre-allowance numbers.

Table 6: percentage of childless households who could afford a child post allowance.

Age Category	High Income		Middle Income		Low Income	
	Pre	Post	Pre	Post	Pre	Post
16-20	100%	100%	99%	100%	34%	75%
21-30	99%	99%	99%	99%	64%	86%
31-40	99%	99%	98%	99%	73%	90%

Source: CES Data and Author's calculations

Table 6 shows that many more households in the low income grouping could afford to have children post allowance.

Implementing a universal child allowance of \$9,330 would dramatically lower the number of households with children living in poverty. Table 5 showed that 12% of households that had children were living in poverty. Table 7 shows the pre and post allowance percentages living in poverty.

Table 7: percentage of households with children living in poverty post allowance

Age Category	Pre Allowance	Post Allowance
16-20	26%	9%
21-30	20%	5%
31-40	11%	2%
41-50	9%	3%
51-60	10%	4%
>60	19%	6%
Total	12%	3%

Source: CES Data and Author's calculations

The calculations show that this policy would lower the number of households with children living in poverty by 75%. Implementing a universal child allowance would both increase the ability of low

income households to have children as well as lower the number households with children who live in poverty. Further it would help all parents with the expense of raising children.

Conclusion

The US has no policies that help all families with the financial expenses of raising children. In the US the vast majority of childless households are low income. The current system is one in which the poorest households are being financially driven to forego the most basic human activity, procreation. Further the US system has created a situation where far too many children live in poverty and financial uncertainty.

A universal child allowance might enjoy broad popularity. The implementation of such an allowance could create a system as popular and successful as Social Security. Such a universal child allowance would enable more households to afford having children and would help all households with children to have greater financial security. Finally the policy would serve to dramatically reduce childhood poverty and deal with many of the social issues families are having to struggle with today.

Footnotes

¹This paper uses CES interview data from 2013 second quarter to 2017 first quarter.

²The USDA report, and other studies, are generally used to help family courts to establish the amount of child support parents are obligated to pay. The costs calculated in the USDA are often considered the upper bound of the actual costs and many other studies suggest the cost of raising children might be lower. (Venhor 2017)

³For this study the USDA breakdown of income groups has been used to define low middle and high income households. Low income households are defined as households with less than \$59,200 and high income households are those that have incomes over \$107,400. Middle income households are those that fall in between those two levels.

⁴An example on how to read table 2 is given here. Suppose that there were 100 total households in the CES dataset falling in the 16-20 age group who reported having no children. Roughly 95 of those 100 households fall into the low income category.

⁵Table 3 looks at all households and calculates the difference between the after tax income and their expenditures. If the household has greater than \$9,330 of income after expenditures they are reported as being able to afford another child.

⁶Table 3 is calculated by using the USDA Expenditures on Children report classifications. The report differentiates the amount each type of household spends raising each child. Low income households spend \$9,330, middle income households spend \$12,350 and high income households spend \$19,380. For all childless households in each income group their expenditures were subtracted from income. If that household had enough money remaining to equal the yearly cost estimate to raise a child in that income group they are reported as being able to afford a child.

⁷Table 5 was calculated by looking at the size of the household and the after tax income as reported in the CES data. If after tax income for a household of specific size was lower than the threshold set by Health

and Human services then that household was recorded as living in poverty. The HHS 2018 guidelines place the poverty level at 16,460 for a family of 2 so if a household size 2 had less than that in after tax income that household would be recorded as living in poverty. This calculation was made for all households in the data set with a family size of 10 or fewer.

⁸ These estimates are based upon the 74.1 million children in the US multiplied by \$9,330 which is 691 billion. GDP in 2017 19.39 trillion. So the cost for this program would be around 3% of GDP.

⁹ Such a tax would not be needed to fund the program, but instead it is there to tie the program to a sense of reciprocity. The government has the ability to fund any program due to it being the issuer of currency, however part of the reason Social Security is so popular is that it is seen as a reciprocal exchange. All people who pay into Social Security have the right to draw out of it when they become eligible. A child allowance such as this would maintain that same perception.

¹⁰ Table 6 is calculated by taking the childless household's after tax income and adding to it the allowance of \$9,330. That household's expenditures are then subtracted from the adjusted income and the household is reported as being able to afford a child if the household has enough money left over after expenditures to meet the USDA's child cost estimate for a household in that income group.

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