Lessons for the United States from Other Advanced Economies in Tackling Child Poverty

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Introduction: The Paradox of High Child Poverty and High Per-Capita Income

When it comes to child poverty, the United States has a serious problem. Almost 13 million children – 17.4 percent of the population under age 18 – were poor in 2006 by the official measure. Among children, the youngest are the poorest – in 2006, the poverty rate for children under age 3 was 20.9 percent. Research has consistently revealed the deep and lasting disadvantages faced by children who begin their lives in poverty.

With a more accurate measure of poverty, the child poverty rate would be higher. The official U.S. approach to measuring poverty, essentially unchanged for more than 40 years, is widely considered to be outdated. Moreover, because the U.S. poverty measure falls so short of reflecting the costs of making ends meet, researchers often construct family budgets, or use the benchmark of 200 percent of the poverty measure (about $41,000 for a family of four in 2006) to reflect low-income status – and, in 2006, fully 39 percent of U.S. children were low-income by this measure.

The U.S. child poverty rate ranks among the highest for developed nations. International comparisons often measure poverty by looking at the share of people with income below a percentage of the nation's median income. Using a measure of children in households falling below 50 per cent of median income around the year

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2000, a study from the Organization of Economic Cooperation and Development (OECD) placed the United States 25th out of 26 countries (see table 1).

Yet, the U.S. economy is one of the richest in the world, boasting a 26 percent advantage over the average per-capita income of 19 other advanced economies according to 2007 data.[1] What explains this paradox of high per-capita incomes relative to other economies, yet much higher child poverty? Some might suspect the answer has to do with less effort in the paid labor market by American parents of poor children. But this explanation is not supported by the data. While a group of nations with more supportive policies does show higher maternal employment rates than the United States, the principal explanation for higher child poverty here is not lower work effort.

Instead, the single biggest factor is the role that government plays in reducing the poverty generated by the market. As we show below, there are numerous economies under which child poverty rates are similar to ours before the tax and transfer system kicks in. But these countries go much further than we do in providing benefits that help low-income parents move above the poverty threshold – often through universal or near-universal benefits to all children.

Of course, other advanced nations have different political and policy traditions than the United States, but there is still much we can learn from their approaches about how to make progress in tackling child poverty.

What should the United States do? An existing tax benefit, the federal Child Tax Credit (CTC), should provide help to all low- and middle-income families, but its current design leaves out the poorest families. Moreover, the credit could be designed to provide more help when a child is born, a time of particular importance. Accordingly, we propose that:

- Congress should end the exclusion of low-income families from the child tax credit, preferably by making the credit available to all low-income families with children or alternatively, by ensuring that any low-income family with earnings qualifies; and
- Congress should enact a Baby Benefit, by making the credit twice as large for infants.

This expansion could be funded through revenue from the federal Estate Tax, making clear the links between one generation and the next, while reducing child poverty and benefitting a broad group of low- and middle-income families with children.

How do other countries achieve lower child poverty rates?

U.S. child poverty rates, measured using the poverty threshold of half median income, are higher than in every country in the OECD except Mexico (see Table 1).

Table 1: Poverty rates in OECD countries around the year 2000 (in descending order)

Poverty rates of OECD countries around 2000 using 50 percent of median income:

Country	Percentage of children living below 50 percent of median income
Denmark	2.4
Finland	3.4
Norway	3.6
Sweden	3.6
Belgium	4.1 (data for 1990s)
Switzerland	6.8
Czech republic	7.2
France	7.3
Luxembourg	7.8
Netherlands	9
Germany	10.9
Australia	11.6
OECD average	**12.2**
Greece	12.4
Hungary	13.1
Austria	13.3
Canada	13.6
Japan	14.3
Poland	14.5
New Zealand	14.6
Portugal	15.6
Spain	15.6
Ireland	15.7
Italy	15.7
UK	16.2
Turkey	21.1
U.S.	21.7
Mexico	24.8

Source: Adapted from Table 1 in Peter Whiteford and Willem Adema, *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?* OECD (2007).

Summarizing a range of studies on how other advanced economies achieve low child poverty rates, two broad factors are important.

1. A high share of parental employment, with a particular focus on maternal employment and tackling poverty for those in work. A high share of working households is a key factor in all countries achieving very low child poverty rates, but countries performing best also ensure high rates of maternal employment and low rates of working poverty.

2. Generous benefits targeted at children. Countries that target more resources at families with children achieve lower child poverty rates.[2]

Regarding the first factor, low-income parents in the United States spend relatively high levels of hours at work compared to those in other countries. In a study of annual hours worked by poor parents, Timothy Smeeding finds that in 2000 the average for U.S. parents was about 1,500 hours, compared to the non-U.S. average of about 1,100.[3] For single-parents, the difference is even starker: 1,100 vs. 500 hours. Smeeding finds that the United States had the highest child poverty rate among seven nations, despite having the highest hours of work by poor parents among the seven.[4] Similarly, a recent UNICEF report found that the United States ranked 24th among 24 nations on a relative child poverty measure, despite ranking fifth in the share of children living in a household with a working parent.[5]

There is room for increased maternal employment in the United States. The employment rate of mothers in the United States, while higher than average for advanced economies, is well below that of some countries with very low child poverty rates. For example, the U.S. rate of mothers' employment in 2005 was 66.7 percent, compared to 76.5 percent for Denmark and 82.5 percent for Sweden. However, it is exceedingly doubtful that the United States can make much more progress in raising employment rates by restrictive policies and mandates – the United States already ranks the lowest among OECD nations in the income levels of unemployed single parents. Rather, the nations with higher maternal employment rates provide more support to reconcile work and family life. Noting the strong performance of the Nordic countries in this respect, the OECD recommends promoting childcare assistance, paid parental leave, and family friendly workplaces that offer part-time and flexible working as well as arrangements for taking leave to care for sick children.[6]

But, work alone will not solve the problem. The jobs typically available to low-income parents, the majority of whom are non-college educated, pay low wages. For example, the 20th percentile wage for women in 2007 was about $8.75, which given full-year work (2,000 hours), yields annual earnings of $17,500, before any taxes or transfers. Thus, low-wage work alone will not lift families' incomes to a level at they can effectively meet their material needs, much less save for or invest in their children's future. A recent study comparing the impacts of investing more in children and increasing parental work effort found that increasing parental

employment rates would make little difference to the U.S.'s poverty rate using a relative poverty line.[7]

To understand why our child poverty rate is so high, it is helpful to look at two measures – the poverty rate based on market income alone and the poverty rate after government tax and transfers are considered.

Table 2: How effective are countries at reducing poverty after market income? (in descending order)

Country	Child poverty rate based on market income alone	Child poverty rate after taxes and transfers	Difference
Denmark	10.9	2.1	80.4 percent
Finland	14.3	3.3	76.8 percent
Sweden	13.8	3.2	76.7 percent
Belgium	13.1	3.3	74.7 percent
France	24.6	6.7	72.7 percent
Norway	10	2.9	71.5 percent
Czech Republic	17.2	5.6	67.6 percent
Australia	24.1	10.2	57.7 percent
Germany	17.9	9.5	46.9 percent
Netherlands	13.9	7.6	45.6 percent
UK	25	13.6	45.6 percent
New Zealand	24.1	12.4	43.5 percent
OECD average	**16.3**	**9.2**	**40.2 percent**
Canada	18.1	11.5	36.7 percent
Ireland	20.7	13.5	34.9 percent
U.S.	22.6	18.4	18.9 percent
Portugal	13.4	13.1	2.8 percent
Italy	14.6	14.3	1.7 percent
Switzerland	5.7	6.3	-10.8 percent
Japan	10.7	12.2	-19.9 percent

Source: Adapted from Annex Table 7 in Peter Whiteford and Willem Adema, *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?* OECD (2007).

An OECD study found that our market-based child poverty rate is 22.6 percent, compared with an OECD average of 16.3 percent (see table above). By dint of our much more unequal income distribution compared to these other countries (only the United Kingdom posts similar levels of income disparity), poverty rates are already higher than might be expected given our relatively strong growth record

and high per-capita income. So, a family with two adults working is more likely to be poor in the United States than across the OECD, even before taxes and transfers are taken into account. If, as has been the case over much of the past 30 years, growth disproportionately flows to the top end of the income scale, economic growth becomes less effective at reducing poverty. According to Mishel, et al. (2008), income inequality added 6 percentage points to the growth of poverty since 1969, suggesting that poverty would be that much lower today had the benefits of growth been more broadly shared.

While our market income poverty rate is high, that in itself does not explain our child poverty ranking. Among OECD nations, the United States does among the least to reduce market poverty through taxes and transfers. Ireland, New Zealand, France, Australia, the United Kingdom, all have market-based rates that are similar to the United States, but each does more to reduce child poverty through tax and transfer policies. The Nordic countries, France, and Belgium all reduce child poverty by at least 70 percent compared with market-based rates; Germany, the Netherlands, the United Kingdom, and New Zealand are in the mid-40s. In contrast, U.S. tax and transfer policies reduce child poverty by about 19 percent compared with the market-based rate – among the lowest reductions of the countries measured.

The reason why the United States reduces pre-market child poverty so little is that it spends less than other nations. The United States spends just 0.7 percent of GDP on expenditures for families (including cash benefits, spending on child care and family leave polices, but excluding health and education)[8] compared to an OECD average of 2.1 percent, and expenditure of 3 percent or more in Denmark, Sweden, Norway, Australia, Finland, and France.[9] The same study that found that increasing employment would have little effect also discovered that the U.S. child poverty rate would approach zero if income were to be transferred at the same rate as the third best performing country in child poverty terms (Sweden).[10]

These two characteristics – high inequality and low expenditures – help to explain the high U.S. child poverty rate in an international context. Reducing child poverty is a "heavier lift" because our skewed income distribution means that growth in itself is a less-effect force reducing poverty. And our very low expenditures relative to GDP suggest that we apply little fiscal "muscle" to making that lift.

What should the United States do?

A number of steps should be taken in an overall effort to reduce child poverty and strengthen family economic security. As noted, there is far more that the United States should do to help promote parental employment through policies such as expanded child care, sick and family leave policies, and policies to promote flexible and part-time employment. Another set of strategies would focus explicitly on efforts to improve earnings, benefits, and other features of job quality for low-

wage jobs. Additional efforts need to be directed at helping the families facing the deepest and most extreme policy, many of which are effectively excluded from our highly restrictive cash assistance systems.

Here, we highlight the potential contribution of extending the federal Child Tax Credit to more low-income families, and creating a new Baby Benefit that would be broadly available to low- and middle-income families. While this is one among a number of needed components, there is much reason to believe it could play an important role in increasing resources for families with children and reducing child poverty.

Extend the Child Tax Credit to More Low Income Families

The Child Tax Credit provides a tax credit of up to $1,000 per child for children under the age of 17. High income families are not eligible for the CTC because it is reduced by $5 for every $100 by which a family's adjusted gross income exceeds $110,000 for married couples, or $75,000 for single parents.

Low-income families are often not eligible for the CTC or are only eligible for a partial credit because the CTC is only partially "refundable." Under the U.S. tax structure, a tax credit is refundable if the family can directly receive the amount of the credit that exceeds a family's tax liability. In the current CTC, the amount of the refundable credit is 15 percent of earnings exceeding $12,500. So, for example, a family with earnings of $13,500 can receive a $150 credit, while a family with earnings of $12,000 will receive no credit.

In 2007, 31 million families benefitted from the credit, with total expenditures of about $45 billion dollars. However, because many low-income families are excluded from the credit, less than 10 percent of eligible families in the bottom quintile of families received any benefit from it, and less than 1 percent of current benefits from the credit went to families in the bottom quintile.[11] [12]

We believe the CTC should be made fully refundable so that all low-income families with children should receive the same benefit that is received by middle- and higher-income families. Modeling by the Urban Institute has estimated that adopting such a proposal would reduce child poverty by 20 percent, using a definition of poverty drawn from recommendations of the National Academy of Sciences.[13]

We recognize that, apart from cost, the principal objection to doing this is that it would allow families with few or no earnings to receive a full credit. Some may object that this would reduce work incentives or be inequitable by providing tax-based help to those without earnings.

There is little reason to fear that extending the child credit to all low-income children would create a significant, if any, work disincentive. The amount of the credit would still be a small fraction of the actual cost of child-raising. Notably, the three countries that are most effective at reducing poverty through social

transfers (Denmark, Finland, and Sweden) all have maternal employment rates higher than that of the United States, and levels of jobless households overall that are very similar.[14] In addition, the continued operation of the federal Earned Income Tax Credit would always ensure that entering employment and increasing hours of work was in the financial interest of a very low-income family, as would the fact that the child credit would not phase out as low-income families entered or increased hours of employment. Moreover, if the United States hopes to even minimally reduce the severe income inequality with which American children begin life and spend their childhoods, making the distribution of child tax credit benefits more equitable is a straightforward way to do so.

While the best approach would be full refundability, a useful but considerably more modest approach would be to lower the earnings threshold at which a family can begin qualifying for the credit from $12,500 to zero, so that any earnings can begin qualifying a family for the credit. This would mean, for example, that a family with $1,000 in earnings could qualify for a $150 credit (15 percent of $1,000), and a family with $5,000 in earnings could qualify for a credit of $750 (15 percent of $5,000). Note, however, that doing so would still completely leave out children in the poorest, most marginalized families.

Probably, the principal objection against taking this approach is that the current threshold encourages full-time work, because a family with earnings below $12,500 receives nothing. To that, we respond that it is highly doubtful that many low-income families (or other families) can follow the complexities of tax rules such that the threshold has a significant behavioral impact; that the design of the Earned Income Tax Credit already encourages additional hours of work from low-earners and there is little reason to believe the CTC has an important additive effect, and the virtues of helping the poorest children and encouraging any work far outweigh any factors to the contrary.

We understand that current congressional debate largely centers on whether the threshold for the credit should be reduced to $8,500. We think that would be a valuable initial step, but that over time, it is essential to go further.

Establish a Baby Benefit

Second, we propose to create a Baby Benefit, by doubling the child tax credit for infants in all families that qualify for the credit. We recommend the introduction of the Baby Benefit once the Child Tax Credit has been extended to the lowest income families, both because the expanded inclusion of lower-income children should be the highest priority, and because enacting a Baby Benefit without addressing refundability would actually exacerbate the inequities in the existing child credit.

We recommend a Baby Benefit for four reasons. First, an extensive literature tells us that children's environments in the first years of life are critical for a child's

health and brain development, and the nation should have a strong interest in increasing the resources available to families in this period.[15] Second, families can face new financial stresses when they have an infant, either because of the high costs of infant care,[16] or because of lost wages due to time out of the workforce,[17] or both. While an expanded child credit would be no substitute for expanding child care subsidy assistance or advancing paid parental leave, it could help reduce the financial burdens families face in this period. Third, families with young children are disproportionately poor. Some 21 per cent of families with infants and toddlers are poor on the current U.S. measure, compared to 17 per cent of all children.[18] Finally, poverty is particularly damaging when experienced in early childhood. As explained in the National Academy of Sciences report, From Neurons to Neighborhoods: The Science of Early Childhood Development, "young children are more likely than any other age group in this society to live in poverty, and poverty during the early years is more powerfully predictive of later achievement than is poverty at any subsequent stage of development."[19]

If the CTC is made fully refundable, so should be the Baby Benefit. Even if the CTC is only partially refundable, there is a strong argument for a fully refundable Baby Benefit, given reduced parental employment when a family has an infant. If not fully refundable, though, we would propose to structure the Baby Benefit as a $2,000 tax credit for families with sufficient tax liability to claim the full credit, and otherwise as a refundable credit of 30 percent of initial earnings until the maximum credit was reached. This would mean, for example, that only families with earnings of $6,667 or more would qualify for the full credit. Recognizing that families will often have lower earnings in the year in which the infant was born, a family would receive the higher of the credit that it would qualify for based on earnings in the year in which the infant was born, or the prior year.

In the long run, the Baby Benefit should be structured so that at least part of the benefit could be paid to the family promptly after the birth of the baby. While there are many virtues in using tax policy to provide help to families, a principal limitation is that tax benefits are typically received in a once-a-year lump sum. The Earned Income Tax Credit allows part of the benefit to be paid through an advanced payment structure, but the provision is complex, not well understood, and rarely used. Over time, if the United States continues to use the tax code as a key way to provide a range of benefits, it will be important to develop mechanisms for more prompt provision of benefits in forms not limited to lump sums.

Costs, and How to Pay for Them

Adopting these two changes would not eliminate the gap between the United States and many other developed nations – our expanded credit would still be modest by comparison to many – but it would move the United States closer to the average for investment in children, and target this investment at a time when it may have the most impact.

It is beyond our scope to engage in a detailed accounting of the costs of the program we recommend. We note that according to the Tax Policy Center, providing for full refundability of the CTC would have costs in the range of $12 billion a year (and more assuming it resulted in additional families entering the tax system); starting benefits at the first dollar of earnings has a price tag of around $9 billion per year, and doubling the credit rate in the first year of a child's life would cost around $2 billion (and a higher amount as it interacted with an overall CTC expansion).

One way to pay these costs, and more, would be through restoring a meaningful estate tax on the largest estates. The logic of doing so should be compelling: It is possible to both allow for substantial inheritances and to provide that wealth from a passing generation is used to enhance the well-being of the next generation of American children. Under current law, the estate tax is scheduled to disappear for a single year, 2010, and then be restored to a substantially higher level – 60 percent of the amount exceeding $1,000,000 – in 2011. It is widely anticipated that the debate in Congress will center on whether to continue the tax, and if so, with what exemptions and at what rate. To end the tax altogether would result in an enormous loss in federal revenues (more than $1 trillion over 10 years, according to the Center on Budget and Policy Priorities).[20] As Congress debates the parameters of the estate tax revision, a modest adjustment to the applicable rates – affecting only the very wealthiest inheritances – would more than pay for the proposed expansion of assistance to the next generation of low- and middle-income children.

Conclusion

Child poverty in the United States is much higher than in other advanced nations, and one main reason is our low expenditures in programs designed to offset market-driven poverty outcomes. Given the lasting damage engendered by child poverty, these investments make a lot of sense to us, and we recommend expanding the Child Tax Credit to end the exclusion of low-income families and establish a Baby Benefit for low- and middle-income families.

Of course, a CTC expansion is but one way to accomplish the goal of investing more in poor children, and policy makers may debate the relative merits of this and other approaches. Our main point is that other advanced economies simply invest more of their GDP in children, poor or non-poor, and the results are both clear and salutary. Many fewer children in these countries grow up poor, and that strikes us as an extremely laudable goal for the United States.

[1] Mishel et al., *The State of Working America,* 2008/09, forthcoming.

[2] See e.g. Jonathan Bradshaw *A review of the comparative evidence on child poverty* JRF, UK (2006); Sheila B. Kamerman, Michelle Neuman, Jane Waldfogel and Jeanne Brooks-Gunn, *Social Policies, Family Types and Child Outcomes in Selected OECD Countries* OECD (2003); Hugh Frazer and Eric Marlier *Tackling child poverty and promoting the social inclusion of children in the EU Key lessons Synthesis Report* European Commission (2007); Directorate-General for Employment, Social Affairs and Equal Opportunities *Child Poverty and Well-Being in the EU; Current status and way forward* European Commission (January 2008).

[3] The countries in the study are the Netherlands, Germany, Canada, Belgium, Austria, and Ireland.

[4] Timothy Smeeding, *Poor People in Rich Nations: The United States in Comparative Perspective* (January 2006) available at http://www-cpr.maxwell.syr.edu/faculty/smeeding/pdf/JEP percent20V5_2006.pdf

[5] UNICEF, Child poverty in perspective: An overview of child well-being in rich countries, *Innocenti Report Card* 7, UNICEF Innocenti Research Centre, Florence. (2007).

[6] OECD *Babies and Bosses: Reconciling Work and Family Life: A synthesis of findings for OECD countries* OECD (2007).

[7] Peter Whiteford and Willem Adema, *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?* OECD (2007).

[8] Further details can be found at http://stats.oecd.org/wbos/Index.aspx?datasetcode=SOCX_AGG under 'Type of expenditure'.

[9] OECD social expenditure database. See http://stats.oecd.org/wbos/Index.aspx?datasetcode=SOCX_AGG

[10] Peter Whiteford and Willem Adema, *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?* OECD (2007).

[11] Taxation and the Family: What is the Child Tax Credit, http://www.taxpolicycenter.org/briefing-book/key-elements/family/ctc.cfm

[12] In 2005, 28 per cent of all children, half of all African-American children, 46 per cent of Hispanic children, and 18 per cent of white children received no credit or only a partial credit because their families had low or no earnings. See Leonard E Burman and Laura Wheaton *Who gets the child tax credit?* Urban Institute (2005) available at http://www.urban.org/UploadedPDF/411232_child_tax_credit.pdf

[13] Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits with TRIM3, http://www.urban.org/UploadedPDF/411450_Estimating_Effects.pdf. See also Center for American Progress *From Poverty to Prosperity: A National Strategy to Cut Poverty in Half,* Center for American Progress (2007) available at www.americanprogress.org/issues/2007/04/pdf/poverty_report.pdf

[14] See Table A2 in Peter Whiteford and Willem Adema, *What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?* OECD (2007) and Table 3.2. OECD 2007 *Babies and Bosses – Reconciling Work and Family Life (Vol. 5): A Synthesis of Findings for OECD Countries* available at http://www.oecd.org/dataoecd/15/47/39680843.xls

[15] National Scientific Council on the Developing Child *The Timing and Quality of Early Experiences Combine to Shape Brain Architecture* Centre on the Developing Child Harvard University (February 2008) available at http://www.developingchild.net/pubs/wp/Timing_Quality_Early_Experiences.pdf

[16] For example, the average costs of full-time childcare for an infant can be as high as $14,591 a year, compared to $10,787 for a four year old . See NACCRRA P*arents and the High Price of Childcare: 2008 Update* NACCRA (2008) available at: http://www.naccrra.org/docs/reports/price_report/Price_Report_2008_One_Page.doc

[17] Nearly half of first-time mothers (45 percent) are not in paid work six months after a child's birth, and more than a third (36 percent) are not in work 12 months later. For first-time mothers who were working during their pregnancy, 28 per cent were not in work six months after a child's birth, and 20 per cent are not in work 12 months later. See Talesse D. Johnson *Maternity Leave and Employment Patterns of First Time Mothers: 1961-2003* U.S. Census Bureau (2008) available at: http://www.census.gov/prod/2008pubs/p70-113.pdf

[18] National Center for Children in Poverty *Basic facts about low income children: Birth to age 3* NCCP (2007) available at: http://www.nccp.org/publications/pdf/download_221.pdf

[19] Jack P. Shonkoff and Deborah A. Phillips, *From Neurons to Neighborhoods:The Science of Early Childhood Development,* National Academies Press (2000) available online at http://www.nap.edu/openbook.php?record_id=9824&page=280

[20] Joel Friedman, *The High Cost of Estate Tax Repeal* Center on Budget and Policy Priorities (2007), available at: http://www.cbpp.org/6-5-06tax.htm