REDUCING CHILD POVERTY

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Number of Children in Poverty by Half in 10 Years
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Good morning Chairwoman DeLauro, Ranking member Cole, and esteemed members of this Sub-Committee. I am a social worker and became an economist in order to do better social work. I began my career at the Institute for Research on Poverty at the University of Wisconsin, the think tank for the War on Poverty, currently co-direct the Columbia University Center on Poverty and Social Policy, have studied poverty my entire professional career, co-led two major poverty studies, the Fragile Families and Child Well being Study and the New York City Poverty Tracker, and was privileged to serve as a member of the National Academies of Sciences, Engineering, and Medicine's Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 years. Thank you Representative Lee and Representative Roybal-Allard for your critical role in creating the Committee.

The Committee's Report, *A Roadmap to Reducing Child Poverty,* consisting of 9 chapters, provides a demographic portrait of child poverty in the US, summarizes knowledge about the ill consequences of child poverty, analyzes how the labor market, family structure, and government policy affect child poverty, uses micro-simulation estimates of the poverty reduction and costs of 10 different policies and 4 different policy packages, discusses alternative policies for which simulations were not possible, discusses contextual factors that influence the effectiveness of anti-poverty policies, and makes recommendations for research and data collection. Thanks to my fellow Committee members, the Committee staff, and child poverty experts across the country, the Report is first rate and I commend it to you. Dolores Acevedo-Garcia who also served on the Committee and is testifying today summarizes several key findings from the Report. My testimony highlights only two of the key findings, then focuses on the differences between the two packages which cut child poverty by half.

First, the Report finds that the costs of child poverty to the nation are huge—approximately one trillion per year. These costs arise because children raised in poverty will be less healthy, less educated, less productive, and more anti-social as adults. The evidence that poverty causes these ill effects is pretty strong. By contrast, the costs of cutting child poverty in half are modest—about $100 billion per year. Second, government transfers are responsible for nearly all of the reduction in child poverty in any given year and over time both within the US and other rich nations.

The Roadmap to Reducing Child Poverty is a **consensus** report. The committee found **two program packages** that would cut child poverty in half. One relies primarily on increases in **means tested** benefits—food stamps and housing subsidies while the other relies primarily on **universal** or **non means tested** benefits—primarily child allowances. Either package would achieve a great deal of good. The child poverty reduction and fiscal costs of each package are virtually equivalent. The universal approach is in my judgment vastly superior.   My remarks this morning do not represent the Committee. Rather I draw on my own research on

the benefits and costs of alternative income transfer programs and focus on the superiority of the universal approach in general and child allowances in particular.

What are the benefits of Universality?

First, human dignity. Means tested benefits, including food stamps and housing subsidies stigmatize beneficiaries. If everyone, rich and poor alike, gets the benefit, there can be no shame. Universality eliminates stigma.

Second, universality promotes **social cohesion** Benefits limited to the poor or near poor, create a sharp division between beneficiaries and taxpayers.

Lower middle class families who are just barely better off than the near poor are **resentful** of poor beneficiaries.

This is especially dangerous in our country where the poor are much more likely to be black and brown and the lower middle class much more likely to be white. Universal programs enforce the notion that we are all in this together.

Third, Universal programs promote social inclusion by including the poorest and the richest in the same institutions. Means tested programs create separate **bureaucracies** for the poor thereby reinforcing exclusion.

Fourth, and most important, universal benefits promote **equal opportunity and mobilit**y.

Benefits targeted at the poor reduce benefits as incomes increase. Benefit reductions are equivalent to a tax on income. In general, means tested benefits place higher tax rates on the poor and near poor than universal benefits and in the US currently place substantially higher tax rates on the poor and near poor than those who are more affluent. Means tested benefits improve the circumstances of the poor, but in the process make it more difficult for them to further improve their economic circumstances.

In means tested programs, what we give to the poor with one hand, we take away with the other.

This creates what the late Tony Atkinson labeled a **poverty trap**. You can't earn your way out of poverty or near poverty because benefits are reduced steeply as earnings increase.

Universal benefits by not eliminating benefits as earnings increase, avoid the poverty trap and promote opportunity and mobility.

In short, the benefits or virtues of universal benefits are great. What are the costs?

The **fiscal costs** of universal benefits are generally much higher than the fiscal costs of targeted benefits.

Indeed this is the only cost or vice of universal benefits.

At the end of my comments I will return to the question of whether this extra cost is a vice or virtue. But first, as the Roadmap Report clearly explains, in the case of child allowances in the US today, the extra costs are small. Recall the bottom line, both the means tested and universal packages cut child poverty in half at about the same cost.

Why is the child allowance so cheap? Because the US today nearly has a $2000 per child allowance.

Most families in the country get $2000 per year per child via the federal income tax: The exceptions are a **small group of the very richest families** and a **much larger group of the poorest families** in the country—those with very low or no earnings.

Excluding the poorest third of families is not just inequitable, it is also unwise. The children in these families would benefit the most from the tax credit or child allowance.

The rest of society will also benefit from including the poorest children because when these children grow up they will be more productive citizens, earning more, paying more in taxes, less likely to commit crime, and less likely to be unhealthy.

Converting the child tax credit to a universal allowance at the federal level is straightforward. Administration of the benefit would shift from the Treasury Department to the Social Security Administration which has expertise in paying benefits on a monthly basis.

In short, a child allowance of $2000 per year is a clear policy winner because it has all of the virtues of universality and none of the usual extra costs.

But, increasing the child allowance beyond $2000 to $2700 per year as in the universal package in the Report or even higher to $3000 or $3500 per child, does entail all the usual extra "costs" of universality. These extra costs arise because everyone gets the benefit. But if we ask who pays for the costs and who benefits from this extra cost, if the tax is close to proportional, the answer is the biggest gainers after the poor and near poor are the lower middle class and the middle class. Even the upper middle income group, the fourth quintile are net gainers. The only losers are those in the top fifth and the biggest losers are in the top 1%.

So are extra costs really a vice? Or in the current context where inequality is as great as during the **Gilded Age** and the **Roaring Twenties**, is this vice actually a virtue.

This concludes my testimony. Thank you for the opportunity to testify and I look forward to your questions.