

Sweden pays parents for having kids — and it reaps huge benefits. Why doesn't the US? ^[1]

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Source: Vox

Format: Article

Publication Date: 23 May 2016

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EXCERPTS

Basic income is all the rage these days. The idea — which calls for the government to give everyone in a given city/state/country/whatever enough money to live in, no strings attached — is being tested in Finland, in Ontario, in the Netherlands, and in Kenya. Switzerland's set to vote on whether to adopt it as a national policy in June.

But discussions of the proposal rarely mention that many rich countries — including France, Germany, Ireland, the Netherlands, and Sweden — already implement a version of it. Most Western European countries have what's called a "universal child benefit," or a basic income going only to families with children.

It's a much simpler way to support families than the complicated system the US uses, and an American version could vastly reduce child poverty, perhaps eliminating it altogether.

At least 10 rich countries have universal child benefit policies

For a widely employed policy, universal child benefits (also known as "child allowances") keep a pretty low profile. That's partly because many countries with them also have a variety of other child-related programs, such as child care subsidies or child tax breaks limited to people who work or means-tested welfare. Universal child benefit plans, however, stand out for being truly accessible to all: Children and families get them no matter if they work or not, and no matter if they plan to spend the money on child care or food or rent or what.

As of 2012, at least 11 rich countries had policies like that, according to the University of Antwerp's Minimum Income Protection Indicators (MIPI) database: Austria, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Norway, Sweden, and the UK.

France's program is designed largely to encourage childbearing, and so only kicks in for families with two or more children.

The laws have changed a bit since the database was last updated. The UK no longer has a universal benefit; the current Conservative government started means-testing the child benefit for middle-class and upper-income households, beginning in 2013. As the University of York's Jonathan Bradshaw, an expert on child benefits, noted upon the policy introduction, it makes the UK "one of the very few countries in Europe that do not have a universal child benefit."

On the other hand, Canada recently boosted its child benefits. The new Liberal government under Justin Trudeau is scrapping the current byzantine array of child support programs — which include, no joke, benefits for hockey lessons — in favor of a new benefit of CA\$6,400 (US\$4,935) per child under six and CA\$5,400 (US\$4,164) per child aged 6 to 17. The amounts are gradually reduced, but families making up to CA\$180,000 (US\$140,000) will at least get something. It's not a true universal system, but it's nearly universal.

Cash assistance can dramatically cut child poverty

The best rationale for universal child benefits is that they substantially reduce child poverty

Consider what happened when Tony Blair and the Labour Party introduced a universal benefit in the UK in 1999. The measure was part of a broader set of proposals meant to tackle child poverty, including tax credits, means-tested programs, a national minimum wage, a workers' tax credit, universal pre-K, expanded child care, and much longer parental leave. The result was that absolute poverty fell by more than half from 1999 to 2009, while relative poverty (the share of children under 60 percent of the median income) fell by 15 percent; things got dramatically better for the poor, but because the middle class gained too the relative poverty fall was smaller.

While child poverty in the US declined slightly over the same period, a comparison of the two trend lines is still startling.

The researchers Tom Sefton, John Hills, and Holly Sutherland concluded that the benefit and tax credit increases from 1997 to 2005 caused incomes for the bottom 10 percent of households to grow 20 percent. "It was one of the largest [increases] in any of the rich

countries for which reliable data are available," the University of Arizona's Lane Kenworthy notes.

There's every reason to think a universal child benefit could pull off a similar reduction in child poverty, and improvement in living standards for the poor, in the US. A recent report for the Century Foundation by Columbia researchers Irwin Garfinkel, David Harris, Jane Waldfogel, and Christopher Wimer ran simulations of a variety of different child allowance plans to see how they'd affect child poverty in the US.

A \$2,500 per child benefit in the US would cut the number of children in poverty from 12.2 million to 8.4 million, a drop of nearly a third. A \$4,000 benefit would cut the number to 5.8 million, getting the child poverty rate below 10 percent for the first time in American history. It wouldn't be cheap — the pricier option would cost \$202.9 billion a year on top of the existing cost of the child tax credit — but the benefits would be enormous. Child poverty costs the US an estimated \$500 billion a year through reduced adult earnings, increased crime, poorer health, and so on. Fighting it is not just the right thing to do; it's the financially prudent thing as well.

The benefits aren't misspent, either. Sam Houston State University's Christian Raschke has found that Kindergeld, the delightfully named German child benefit program, leads families to increase spending on food, but not on drinking of alcohol. One study of EITC, the US cash transfer program, found that receiving cash actually leads parents to get prenatal care which in turn reduces the amount they smoke and drink.

And cash benefits help kids in other ways, too

The benefits of cash transfers last for affected children's whole lifetimes. There are reams of evidence, both in the US and abroad, suggesting that programs that put more cash in the hands of families with children can dramatically help those children later on in life, by boosting their test scores, making them healthier, and promoting higher earnings once they start working.

Consider, for example, the effects of the Earned Income Tax Credit in the US. The EITC is not a real child allowance, but it is a cash transfer program targeted almost exclusively at families with children. And as this review of the evidence by the Center on Budget and Policy Priorities indicates, its benefits for children, across their lifespans, are considerable.

UC Berkeley's Hilary Hoynes, UConn's David Simon, and UC Davis's Douglas Miller have found that the EITC substantially improves infant health, reducing the rate of low-weight births by 6.7 to 10.8 percent. The effect was even bigger for African-American children. Their paper suggests that the credit improves prenatal care. Economist Kevin Baker found similar effects on birth weight, as did the University of Albany's Kate Strully, Stanford's David Rehkopf, and Boston University's Ziming Xuan.

Two studies, one by Michigan State's Michelle Maxfield and the other by Stanford's Raj Chetty, Brown's John N. Friedman, and Columbia's Jonah Rockoff, have found that EITC boosts test scores, odds of graduating from high school, and odds of attending college. Chetty and his co-authors also link it, through its effect on test scores, to a decline in teen birth rates and an increase in adult earnings of about 0.5 percent. For an average 25- to 34-year-old adult making \$31,219 a year, that's an extra \$156 a year, because of a tax credit their parents got.

UCSD's Gordon Dahl and University of Western Ontario's Lance Lochner also found positive effects on test scores, and UT Austin's Dayanand Manoli and the Treasury Department's Nicholas Turner confirmed the other findings on the credit boosting college attendance.

Research on non-EITC cash programs has largely found the same thing. A study of childcare subsidies in Norway by UT-Austin's Sandra Black, University College Dublin's Paul Devereux, University of Bergen's Katrine Løken, and the Norwegian School of Economics' Kjell Salvanes found that they significantly increased children's academic performance, just by boosting parents' disposable income.

Duke's Jane Costello has found the Eastern Band of Cherokee Indians's casino dividend to its members decreased psychological problems among children, cut crime rates, and increased on-time high school graduation rates. University of British Columbia's Kevin Milligan and University of Toronto's Mark Stabile have found that Canada's child benefit expansions have boosted test scores and health outcomes. Libertad González at Pompeu Fabra University in Barcelona found that a short-lived universal child benefit program in Spain increased the time mothers spend with children in the first year of life and reduced the risk of couples with newborn babies breaking up.

Cash subsidies can even extend kids' lifespans. Brown's Anna Aizer, University of Toronto's Shari Eli, Northwestern's Joseph Ferrie, and UCLA's Adriana Lleras-Muney looked at the Mothers' Pension program, the first federal welfare program in American history, which ran from 1911 to 1935. They found that male children of mothers who got accepted for the program lived one year longer, got more schooling, and had incomes 14 percent greater than children of mothers who got rejected.

Why America in particular could use a universal child benefit

A universal child benefit would be particularly attractive in the US, which currently offers basically no cash assistance for families with children and no earnings. Weak labor markets for people with low skills and little education can prevent low-income parents from getting steady work, and limit their benefits from the Earned Income Tax Credit and Child Tax Credit, both of which only go to households that earned money working.

Theoretically, Temporary Aid to Needy Families (TANF) should provide assistance to such families, but only about a quarter of families in poverty get TANF because it's so difficult to succeed in applying for benefits. As Kathryn Edin, co-author of the book *\$2 a Day*, told me, "It's really a shadow of itself ... It's dead, and where it's really dead is in the imaginations and thought processes of the poor. This is not seen as a fallback. In most cases, it doesn't occur to people to apply." Food stamps help such families stay afloat, but you can't use food stamps to pay rent or bus fare or gas or any of the other non-food expenses poor families face.

A universal benefit, by contrast, would offer thousands of dollars to struggling families outside the labor force, letting them escape deep poverty, and letting some escape poverty altogether.

Creating a child benefit would also enable a great deal of tax simplification. Currently, the Earned Income Tax Credit aims to both reward work and provide additional support to families with more children; a child benefit would let it focus on the former, and enable a transformation into a streamlined work credit that helps childless workers, who currently get basically nothing from the EITC.

You could probably also do away with the non-refundable Child and Dependent Care Credit, head of household filing status, and the dependent exemption, all three of which are tax benefits reserved for families with positive income tax bills — that is, not the poor or lower middle class. Those changes, along with getting rid of the child tax credit, would save about \$100 billion a year, which could be used to partially fund a new universal child benefit.

Edin and University of Michigan sociologist Luke Shaefer have documented an alarming increase in the share of American households in extreme poverty, relying on only food stamps, and sometimes not even that, to get by. It was, they argued, an inevitable result of welfare reform, which replaced Aid to Families with Dependent Children (AFDC), a deeply flawed cash assistance program that nonetheless kept many families afloat, with TANF, which helps far fewer. No one would argue for bringing back AFDC as it was pre-reform. But a universal child benefit would bring back the program's biggest benefits, without discouraging work and while supporting middle-class families as well.

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Region: United States [3]

Tags: social policies and programs [4]

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