

CHAPTER 3

COMBINED IMPACTS AND COSTS

Policy improvements selected by the Children’s Defense Fund would reduce child poverty by 60 percent. Ninety-seven percent of poor children would benefit.

According to the Urban Institute’s analysis, the nine policy improvements described in Chapter 2 together would reduce child poverty as measured by the Supplemental Poverty Measure (SPM) by 60.3 percent, lifting 6.6 million children out of poverty in 2010 (see Table 3.1). Among these 6.6 million children would be 540,000 extremely poor children, nearly one quarter of all extremely poor children. An additional 4 million poor children would see their family’s economic resources increase, although not enough to lift them above the poverty line. In all, 10.6 million poor children, or 97 percent of all poor children, would experience increases in economic resources; only 305,000 poor children would not benefit.

Child poverty would decline substantially for children of all ages, races and ethnicities, and in all regions of the country. Although all groups would experience significant child poverty reductions, some would experience greater declines:

- 64 percent for children under 3, who are the most vulnerable to poverty’s harmful effects.
- 72 percent for Black children, who have the highest child poverty rates; the Black-White child poverty gap would shrink by 30 percent.
- 64 percent for single-parent families with children.
- 68 percent for children in non-metropolitan areas.
- 63 percent for children in the Midwest.

TABLE 3.1 Children Who Would Benefit From Policy Changes

Family SPM poverty range prior to policy changes	Number who are lifted above poverty (millions)	Percent who are lifted above poverty	Total number with increases in resources (millions)	Percent with increases in resources	Average annual family resources pre-policy changes	Average increase in family resources
Less than 100% poverty	6.6	60%	10.6	97%	\$18,983	\$10,087
Less than 50%	0.5	24	2.0	97	6,933	11,407
From 50% to <100%	6.0	68	8.5	97	22,041	9,895
From 100% to <150%			16.0	90	33,433	5,512
From 150% to <200%			9.0	66	44,466	3,348
200% or higher			7.5	23	84,002	1,945
Among all children	6.6	60%	43.3	58%	\$41,109	\$5,580

Note: Number may not sum to totals because of rounding.

A total of 43.3 million children would benefit.

In addition to helping poor children, the policy changes would also improve the economic well-being of 32.7 million children above 100 percent of SPM poverty — half of them in families with incomes between 100 and 150 percent of poverty — but to a lesser extent than for children below poverty (see Table 3.1). Increases in family resources for poor children would average \$10,087 a year compared to \$1,945 for children at or above 200 percent of poverty. A total of 43.3 million children, 58 percent of all children in America, would see their family's economic resources increase as a result of these nine policy improvements.

Although the focus of the analysis was reducing child poverty, these policy changes would also reduce poverty among working-age adults by 26 percent and among the elderly by 4 percent. Overall, the proposed policy improvements would reduce poverty in the entire population by 31.5 percent. A net total of 3.1 million people in families with children would gain jobs from the combined impacts of new subsidized jobs and improvements to the Earned Income Tax Credit, child care subsidies, minimum wage, and the Child and Dependent Care Tax Credit.¹

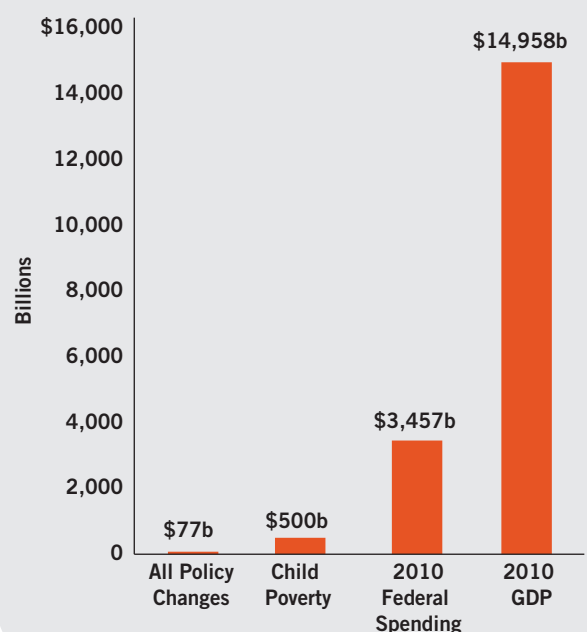
Although 4.3 million children would remain poor despite the policy changes, 93 percent of them would still be helped by one or more of the changes, including 902,000 children who would be lifted above 50 percent of poverty. Not surprisingly, those who would remain poor started out deeper in poverty: 38 percent were extremely poor compared to 8 percent of the children lifted above poverty. Legal status may also explain why some children would remain poor. Thirty percent of these children lived in households headed by an undocumented immigrant (although 89 percent of the children in these families were citizens) as compared to 14 percent of children who would be lifted above poverty. Many policies and programs included in this analysis restrict benefits to citizens and authorized immigrants who have been in the U.S. for a minimum of five years.

Lifting 60 percent of poor children out of poverty and increasing resources for a total of 43.3 million children in 2010 was estimated to cost federal and state governments \$77.2 billion.²

Just over half of the \$77.2 billion (54 percent) would go to families below 100 percent of SPM poverty, and 84 percent would go to families with incomes below 150 percent of poverty. Reducing child poverty by 60 percent would make an enormous difference in the lives and futures of those children and begin to reduce the estimated half a trillion dollars the U.S. spends every year for the lost productivity and extra health and criminal justice costs of adults who grew up poor.

The cost to reduce child poverty by 60 percent represents only 2 percent of the \$3.5 trillion spent by the federal government in 2010 and only 0.5 percent of the country's gross domestic product (GDP) that year.³ It is only 69 percent of the \$112 billion the U.S. has spent on average every year since 2001 on the wars in Iraq and Afghanistan.⁴ Our national security depends as much on a healthy, educated citizenry as it does on military strength. Furthermore this investment could be made without increasing the deficit by eliminating tax breaks for corporations and wealthy individuals or redirecting a small fraction of our military spending.

FIGURE 3.1 – Cost of Proposed Policy Changes Relative to Costs of Child Poverty, Federal Spending, and GDP



Tradeoffs: Paying to End Child Poverty

The Nation Can Easily Afford to Invest \$77.2 Billion in Children

Any one of the following could pay for a 60 percent reduction in child poverty:

- Closing tax loopholes that allow U.S. corporations to dodge \$90 billion in federal income taxes each year by shifting profits to subsidiaries in tax havens;⁵
or
- Eliminating tax breaks for the wealthy by taxing capital gains and dividends at the same rates as wages, saving more than \$84 billion a year;⁶
or
- Closing 23 tax loopholes included in former House Ways and Means Chairman Dave Camp's Tax Reform Act of 2014, which would free up an average of \$79.3 billion per year;⁷
or
- Cutting only 14 percent of the nation's FY2015 \$578 billion in military spending.⁸ The U.S. houses less than 5 percent of the world's population but accounts for 37 percent of the world's military expenditures;
or
- Scrapping the F-35 fighter jet program, already several years behind schedule and 68 percent over budget and still not producing fully functioning planes. For the \$1.5 trillion projected cost of this program, the nation could reduce child poverty by 60 percent for 19 years.⁹

Alternatively the nation could:

Increase the value of SNAP benefits for families with children by 30 percent and reduce child poverty by 16 percent (cost = \$23.2 billion).

by Eliminating tax breaks for corporate meals and entertainment (savings = \$14 billion);¹⁰

Ensuring high-income households don't pay less in taxes than middle income families (\$7 billion);¹¹ *and*

Closing the Gingrich-Edwards S-corporation loophole that allows professionals such as lawyers and doctors who work for themselves to avoid payroll taxes by characterizing much of their income as business profits rather than wages or salaries (\$2.5 billion).¹²

Provide housing subsidies for poor and near-poor families with children, reducing child poverty by 21 percent (cost = \$23.5 billion) and **provide subsidized jobs to unemployed or underemployed people in families with children**, reducing child poverty by 10.7 percent (cost = \$22.9 billion).

by Making common sense reforms to corporate accounting tax rules (savings = \$58 billion).¹³

Make the Child Tax Credit fully refundable and reduce child poverty by 12 percent (cost = \$12.4 billion).

by Returning estate and gift taxes to 2009 levels, (savings = \$13.1 billion).¹⁴

Increase the value of the Earned Income Tax Credit and reduce child poverty by 9 percent (cost = \$8.2 billion).

by Closing tax loopholes that allow speculators who trade risky investments called derivatives to avoid, defer, or reduce taxes (savings = \$2.9 billion);¹⁵
Preventing tax-preferred retirement accounts, which were designed to help middle-class families save for retirement, from being used by the wealthy to shelter income from taxes (savings = \$2.8 billion);¹⁶ *and*
Closing the corporate stock options tax loophole that allow companies to deduct stock options cashed in by an employee at the inflated current market value, rather than the original cost to the corporation (savings = \$2.5 billion).¹⁷

Provide access to child care subsidies for poor and near-poor families and reduce child poverty by 3 percent (cost = \$5.3 billion).

by Closing the tax loophole that allows corporations to write-off unlimited amounts of compensation for corporate executives as long as it's "performance based" (savings = \$5 billion)¹⁸ *and*
Eliminating tax giveaways for corporate jets (savings = \$0.37 billion).¹⁹

Increase the value of the Child and Dependent Care Tax Credit and reduce child poverty by 1 percent (cost = \$1.6 billion).

by Closing the 'carried interest' tax break for hedge fund managers by requiring that their earnings be taxed as ordinary income rather than capital gains (savings = \$1.7 billion).²⁰

Pass through and disregard child support and reduce child poverty by 1 percent (cost = \$1.1 billion).

by Eliminating the mortgage interest deduction for vacation homes and yachts (savings = \$1.5 billion).²¹

Reducing child poverty by 60 percent would require a combination of policy changes.

No single policy change on its own would reduce child poverty by more than 21 percent. Reaching 60 percent reduction in child poverty would require the combined impacts of multiple policy changes. Nonetheless, some single policy changes would have large impacts. The largest reduction in child poverty from a single policy change was seen with the expansion of housing subsidies, which would cut child poverty by 20.8 percent (see Table 3.2). Increasing the value of SNAP benefits would have the second largest impact, with a 16.2 percent reduction, and making the Child Tax Credit fully refundable would result in the third largest reduction (11.6 percent). Because in some cases the same child would be lifted above poverty by more than one policy improvement, the impact of all policy changes together would be slightly smaller than the sum of the impacts of the individual policy changes (60.3 vs. 77.3 percent).

61 percent of the children benefiting would be in families below 150 percent of poverty but 84 percent of the costs would go to these families.

TABLE 3.2 Impacts and Costs of Individual Policy Changes

	Percent change in SPM child poverty	Number of poor children lifted out of poverty (millions)	Net new federal and state government costs (billions) [^]	Percent of net new costs going to families below	
				100% of SPM	150% of SPM
Combined impact*	-60.3%	6.6m	\$77.2b	54%	84%
Housing	-20.8	2.3	23.5	75	98
SNAP	-16.2	1.8	23.2	37	83
Child Tax Credit	-11.6	1.3	12.4	50	86
Subsidized jobs	-10.7	1.2	22.9	55	66
EITC	-8.8	1.0	8.2	37	78
Minimum wage	-4.0	0.4	-15.2	n/a	n/a
Child care subsidies	-3.1	0.3	5.3	35	77
CDCTC	-1.3	0.15	1.6	25	66
Child support	-0.8	0.09	1.1	30	72

*The combined impact is less than the sum of the impacts of the individual policy changes because in some cases the same child would be lifted above poverty by more than one policy improvement. Similarly the cost of the nine changes together is less than the sum of the costs of the individual changes.

[^] This includes spending going to all children, including those not lifted above poverty and those already above poverty.

n/a: Not available because the minimum wage increase does not result in government costs.

EITC and minimum wage changes and the subsidized jobs program together reduce child poverty by nearly a quarter.

There is great interest across the political spectrum in policies that make work pay more, including pairing an increase in the minimum wage with an improved EITC since the two policies amplify and complement each other.²² Increasing the minimum wage would boost the value of the EITC for low-income workers, and increasing the value of the EITC for lower-wage workers would increase incentives to work more. The anti-poverty impacts of subsidized jobs programs would also be amplified by minimum wage and EITC changes.

The Urban Institute examined the combined impacts of these three policy changes and found that the EITC and minimum wage increases together would decrease child poverty by 12.4 percent. Combining the EITC, minimum wage and the subsidized jobs program would reduce child poverty by 23.4 percent, at a cost of \$18.5 billion (see Appendix Table A3.1 for details).

Impacts differ by race/ethnicity.

The policy improvements combined would result in a larger poverty reduction for Black children than for White and Hispanic children and children of other races. Child poverty for Black children would go from being 2.7 times as high as for White children to 1.9 times, a 30 percent decrease in the Black/White gap. Black children would experience the largest impacts with six of the nine individual policy improvements (see Appendix Table A3.2).

Impacts differ by age.

The youngest children would benefit most from the child poverty reductions. Currently this is the poorest age group and the group poverty hurts most, as the first few years of life are crucial for healthy brain development (see Appendix Table A3.3).

Impacts differ by urbanicity, region, and state.

The policy improvements together would reduce child poverty more in non-metropolitan than metropolitan areas, likely because of lower housing costs and therefore lower SPM poverty thresholds in non-metropolitan areas. Seven of the nine individual policy changes followed this pattern (see Appendix Table A3.4).

As a whole, the improvements also had slightly different impacts on child poverty in different regions of the country, with the largest reduction in the Midwest and the smallest in the West. These variations are likely due to lower housing costs, and therefore lower SPM thresholds, in the Midwest and South compared to the Northeast and West, although not all policy changes followed the same regional pattern (see Appendix Table A3.4).

In sum, while there were small differences based on race/ethnicity and geography, child poverty would fall by more than half in all subsets of children examined. Overall, these nine policy improvements would reduce child poverty by 60 percent, lifting 6.6 million children out of poverty and increase economic resources for a total of 43.3 million children, at a cost the nation can well afford.

Child Poverty Reductions Differ by Race, Age, Urbanicity, and Region			
Race			
White	Hispanic	Black	Other
-60%	-56%	-72%	-56%
Age			
≤2	3-5	6-12	13-17
-64%	-61%	-61%	-56%
Urbanicity			
	Non-Metro	Metro	
	-68%	-59%	
Region			
Midwest	South	Northeast	West
-63%	-61%	-61%	-58%

Impacts of Policy Improvements in Select States

The Urban Institute was able to compute impacts of the policy improvements in California, Florida, New York, and Texas, which together are home to 36 percent of poor children based only on cash income. Although large reductions in child poverty would occur in all four, projected impacts were more than 20 percent higher in New York than in the three other states. All policy changes except those to the minimum wage, the Child and Dependent Care Tax Credit and child support would have the largest impact in New York (see Appendix Table A3.5). Increasing access to housing subsidies would have a particularly large impact in New York, reducing child poverty by nearly 40 percent. It would also have a large impact in California, with a 30 percent reduction. The larger impacts projected for New York may be partly a result of the state having a lower prevalence of undocumented immigrants — who may not be eligible for benefits — compared to the three other states (3.2 percent in New York vs. 4.5 percent in Florida, 6.7 percent in Texas, and 6.8 percent in California²³).

	CA	FL	NY	TX
Number and percent of poor children prior to the policy changes	2.2 million 23.5%	0.8 million 20.2%	0.6 million 13.7%	1.2 million 17.4%
Child poverty reduction	-57.6%	-59.7%	-72.7%	-57.8%

